

# Budapest Market Overview

Matter of Success



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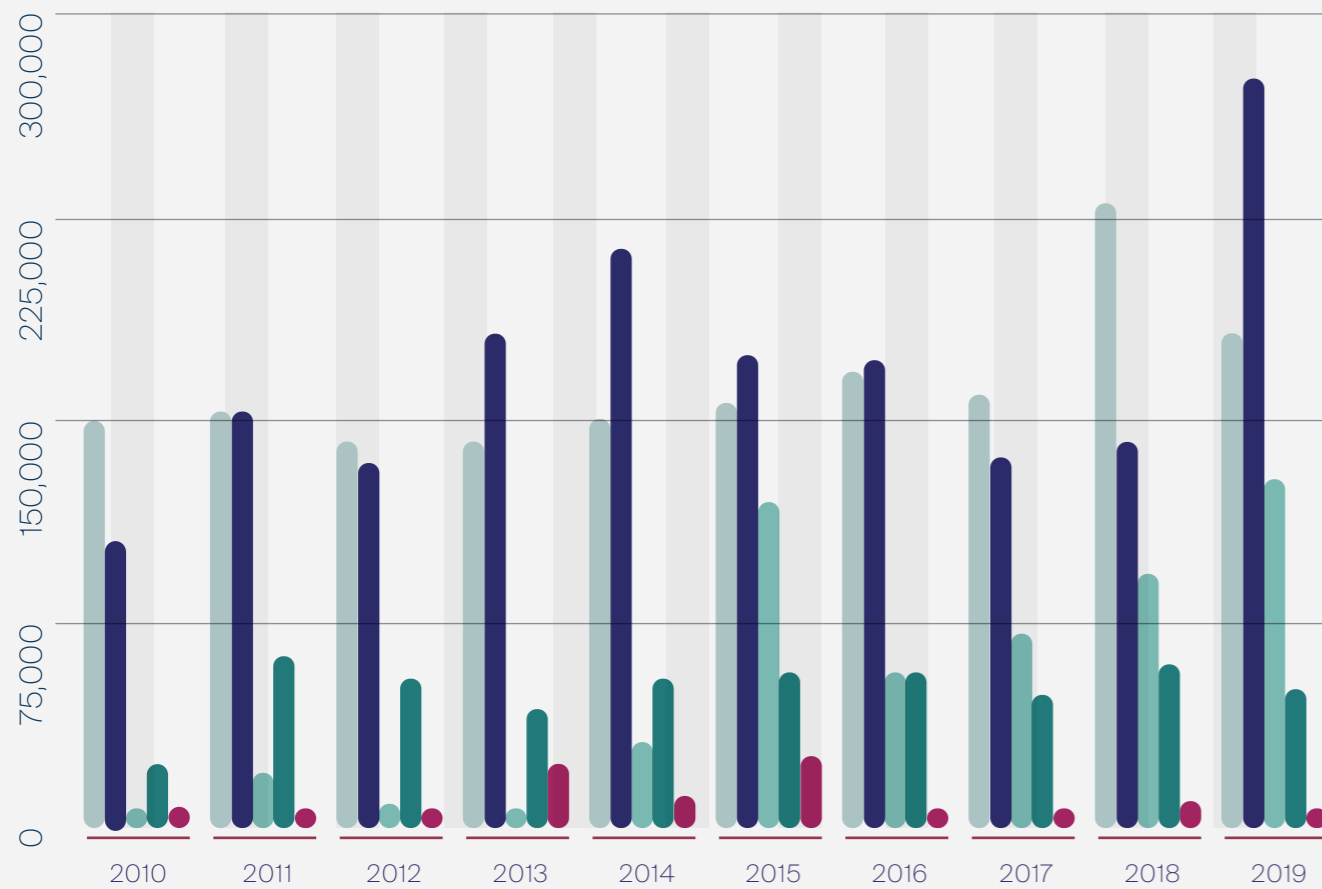
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# Office Market



## DEMAND BY TYPE OF TRANSACTION

- Relocation and new demand
- Renegotiation/Renewal
- Pre-lease
- Expansion
- Owner occupation

## Supply 70,540 sq m

In 2019, the **new office supply reached 70,540 sq m**, which is a significantly lower level compared to last year. Two premium office buildings were handed over in Q4 2019. **Bartók Udvar II** - first phase (8,200 sq m) in South Buda submarket and **Balance Hall** (16,100 sq m) located in Váci Corridor submarket. Both buildings have Green certificates.

## Stock 3.7 m /sq m

The stock level of class A & B office building in Budapest totaled at approximately 3,7 M sq m, which also includes just **over 600,000 sq m owner-occupied office space**. In 2021 we are expecting office stock to reach 4M sq m.

## STOCK BY SUBMARKET (CLASS A&B)

- 24% Váci Corridor
- 17% Central Pest
- 13% Non-Central Pest
- 12% Central Buda
- 11% South Buda
- 10% Central Business District
- 10% North Buda
- 4% Periphery



# Rents

Rents in new developments **are showing a steady increase** due to the limited supply of class A office space. The average rental fee in **existing buildings** were reported at **13.50 EUR/ sq m** and between **14.50 - 16.00 EUR** in **new developments**. **Prime headline** rents remained stable at **25.00 EUR/ sq m**.

**13.50**  
Average rent EUR/ sq m

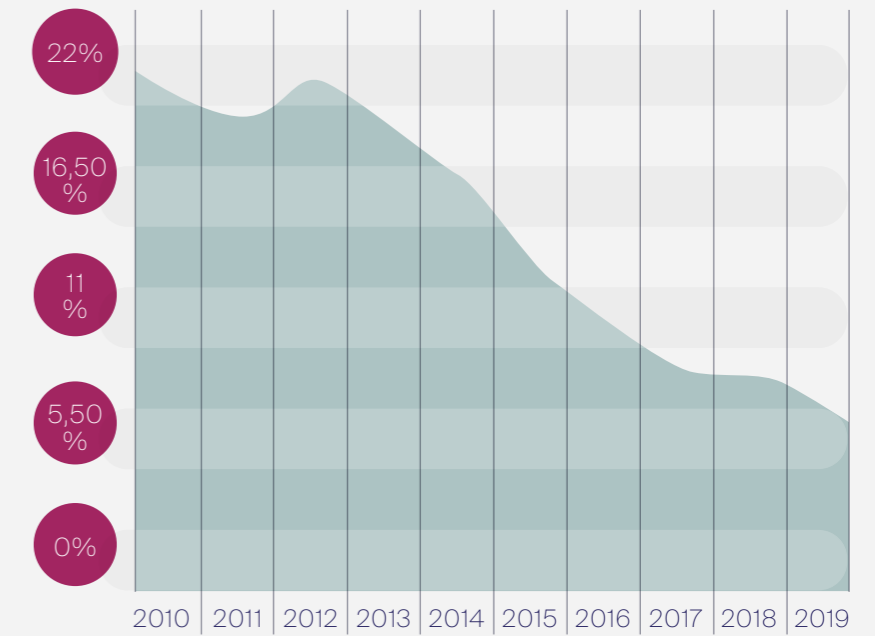
**25.00**  
prime rent EUR/ sq m

**Demand**  
**640,000** sq m

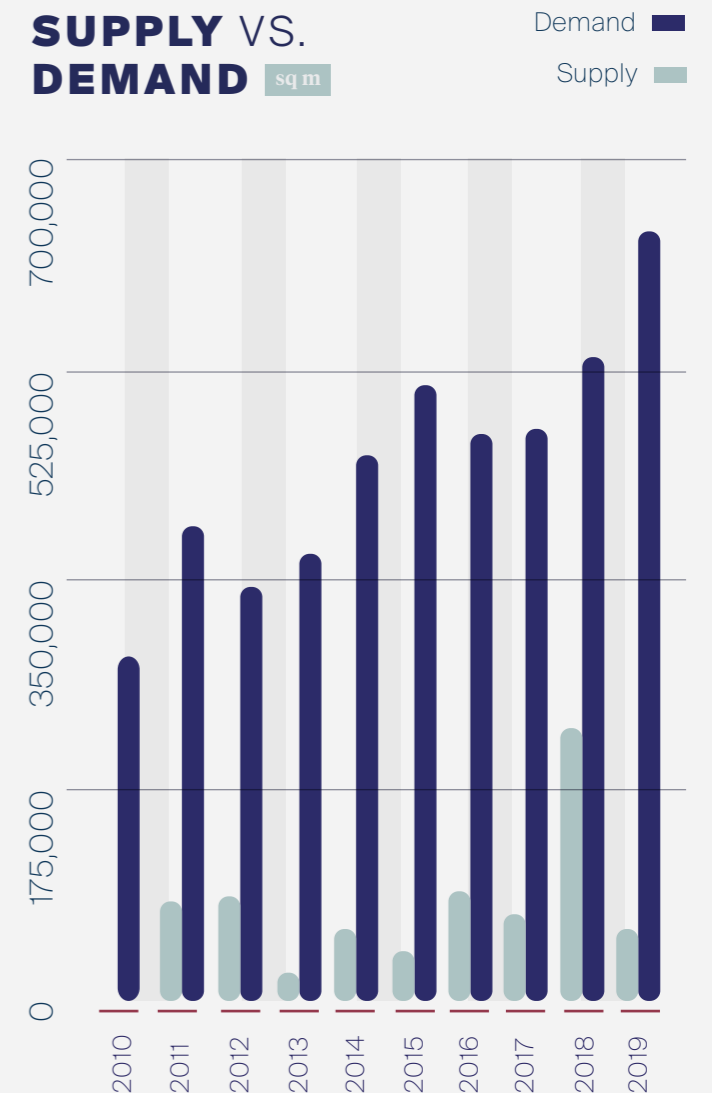
2019 witnessed a record year on the Budapest office market registering **almost 640,000 sq m demand**, the highest number for the past 10 years. **Váci Corridor** remained the most active submarket, reporting the **largest pre-lease transaction** in 2019 (27,000 sq m).



## OVERALL VACANCY



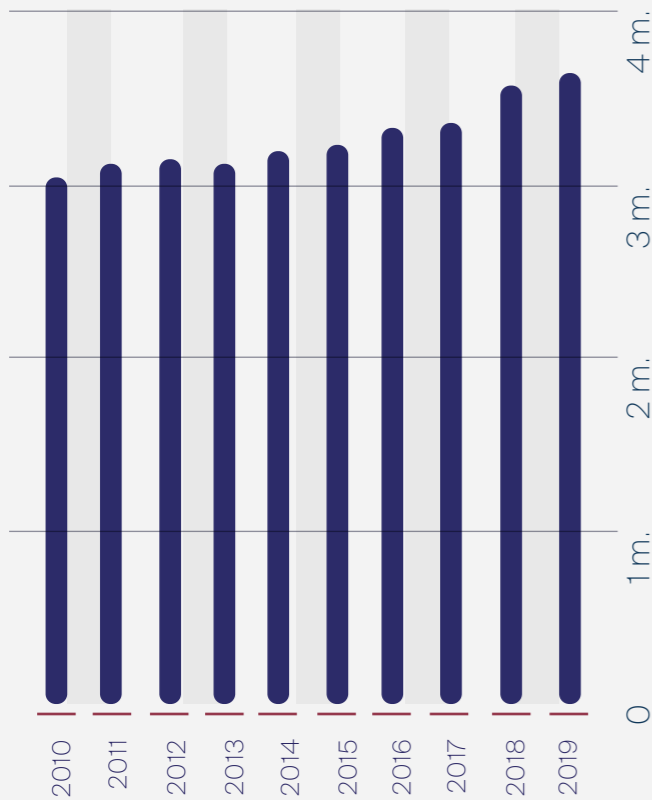
## SUPPLY VS. DEMAND sq m



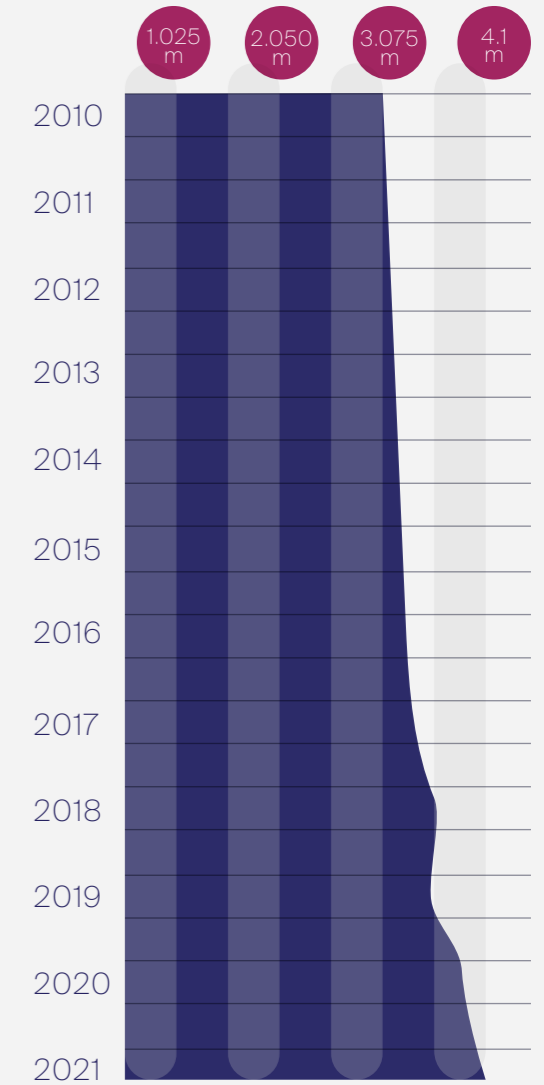
# Vacancy 5.6%

Vacancy rate for Class A & B offices has witnessed **a record low level at 5.6%**, which is a first in the Budapest office market history. The lowest vacancy rate was registered in **Non-Central Pest Submarket (1.4%)**. Based on the high demand, real estate market is still a landlord-favorable market. Periphery, as in the past years, has the highest vacancy rate (34.5%).

## TOTAL STOCK



## TOTAL STOCK FORECAST



## Forecast 230,000 sq m in the next 12 months

We are expecting almost **230,000 sq m stock increase until the end of 2020**, out of which 70% has already been pre-leased. More than half of the new pipeline, 129,000 sq m, will be delivered to **Váci Corridor**. In the meantime, we believe that the vacancy level will further decrease until the end of 2021, based on the fact, that the demand was higher than the supply in four consecutive years. Parallel to this, **rental levels are likely to further increase**, as there is still lack of capacity on the construction market, which will most probably bottom out the landlord contribution.

# Capital Markets

## Economic overview

2015  
2016  
2017



\*arrows: change compared to last year

## Investment volume

**1.7bn**  
eur

In 2019 we witnessed a **total of €1.7 billion in transactions** signed on the local market. The switch to the €1 billion+ investment volume took place in 2016 and the volume of activity remained similar ever since.

Local investment funds have been the most active in terms of acquisitions. 74% of transactions were completed by domestic investors.

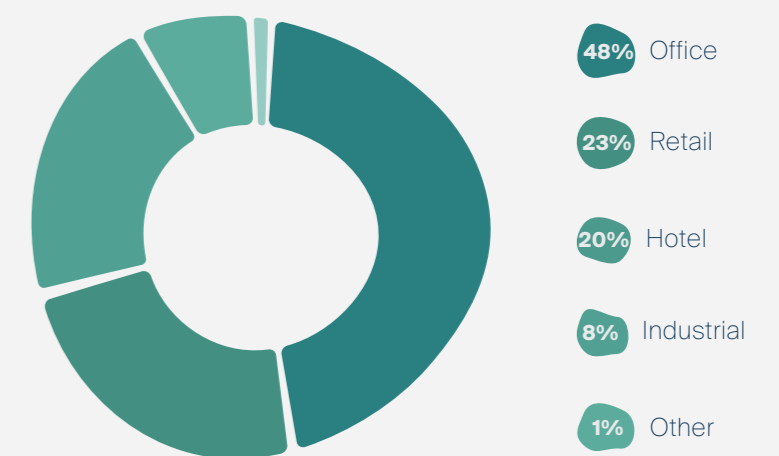
The most significant office transaction was the **disposal of Roosevelt 7/8 Offices**

**(28,200 sq m)**, a premium office building located in the CBD with panoramic views to the Danube. The building was purchased by the Hungarian investment fund OTP Ingatlanalap from GLL. Local developers and asset managers gained significant dominance in all sectors, pushing up the **total market shares of local capital above 70%**. 55 transactions were registered with an average transaction size of €31 million.



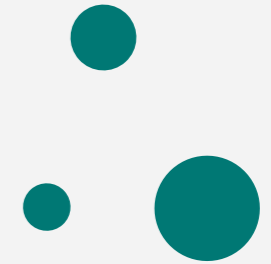
## TRANSACTION DISTRIBUTION BY SEGMENT TYPE

As in previous year, a significant part of the investment volume was generated by the **office segment which accounted for 48% of the total volume** followed by the retail segment with 23%, the hotel segment with 20% and the industrial/logistics segment with 8%.



KEY 2019  
**TRANSACTIONS**

ASSET	SELLER	BUYER
Roosevelt Office Building	GLL	OTP
Sofitel	Starwood	Indotek
Corvin Technology Park	Futureal	OTP
Advance Tower	Futureal	Erste
Klepierre portfolio	Klepierre	Indotek



# Yields

**Downward pressure**

Prime yields have **decreased in volume** compared to their previous cycle peak in the office, retail and hotel sectors. Yields in the industrial segment remained at the same level due to a lack of premium quality supply.

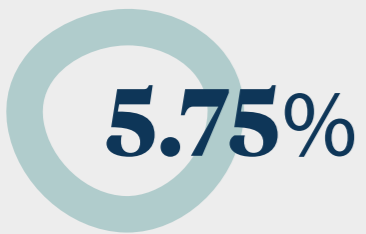
Office



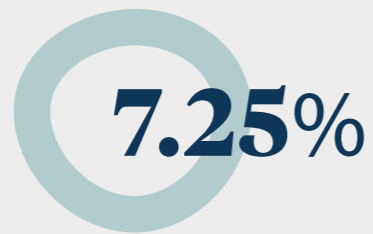
High Street Retail



Shopping centres



Industrial



# Forecast

Considering the continuous encouraging economic environment, the substantial new stock in the pipeline for next year and the positive attitude of the investors, **the investment volume is expected to remain similar to previous years.** The decrease in prime yields seen in the past years is likely to slow down or reach its lowest level in some segments.



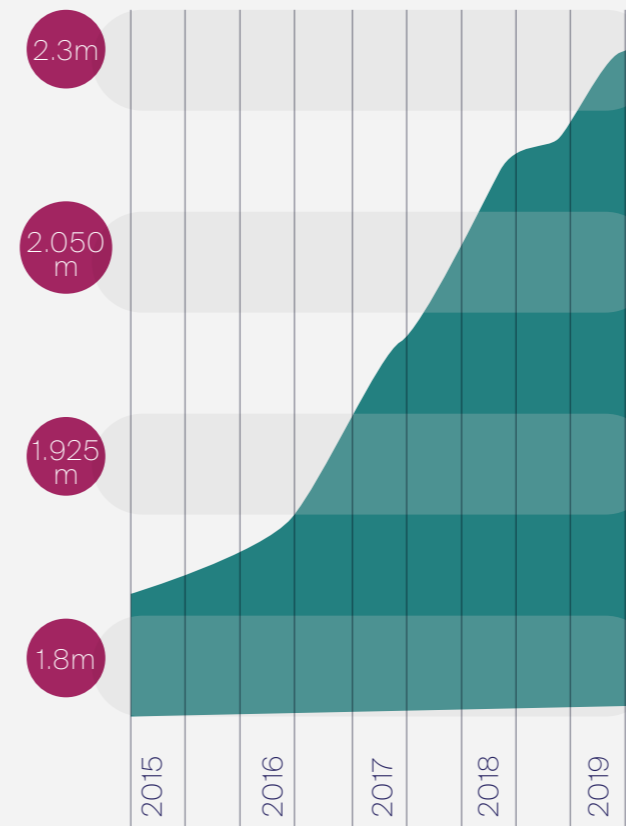
# Industrial and Logistics Market

## Supply

The modern industrial stock stands at 2.25 million sq m in and around the close vicinity of Budapest. The level of deliveries in 2019 was 64,200 sq m, **half of the volume compared to the previous year.** This was far below from the initial expectations, resulting from the delay of the construction of numerous developments.

**2.25 m** sq m  
**64,200** sq m  
 Delivery in 2019

## BUDAPEST MODERN INDUSTRIAL STOCK sq m IN THE LAST 5 YEARS



**Vacancy**  
**1.85%**

The average industrial vacancy rate in Budapest reached a record low level of 1.85% by the end of 2019 with 41,600 sq m of vacant space, of which **66% was unused office space attached to industrial sheds.** In regards to warehouse space only, the vacancy rate was at a significantly low rate of 0.7% representing **14,100 sq m of available space in eight buildings.**

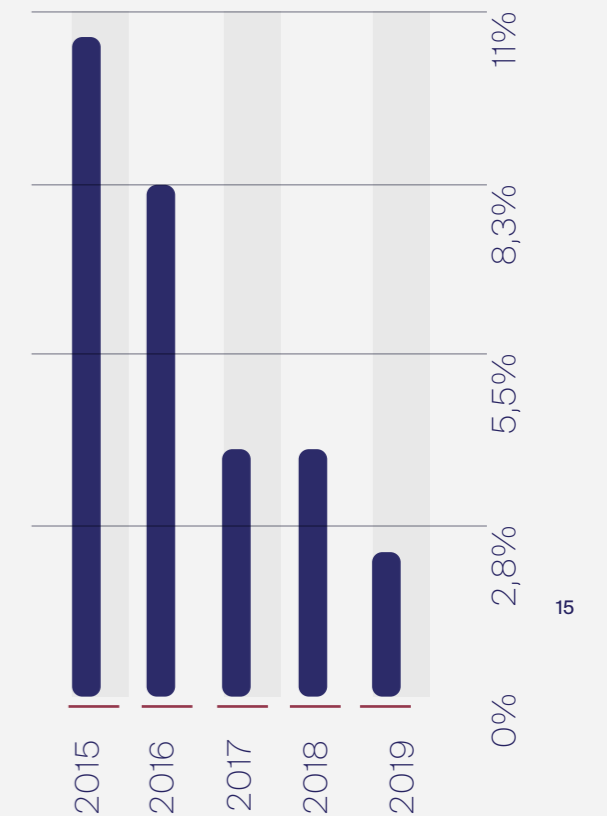
## Demand

**433,800** sq m

The total demand in 2019 in the Budapest industrial market reached **433,800 with a total take up of 203,750.**

A total of 433,800 sq m leasing activity was recorded in 2019 with an average transaction size of 4,910 sq m and only 10 transactions larger than 10,000 sq m. **The yearly net absorption totaled at 79,300 sq m.**

## VACANCY RATE





SUBMARKET	PROJECT	DEVELOPER	AREA
South	Prologis Park Budapest - Harbor	Prologis	10,500
Airport	Airport City Logistic Park	CPI Hungary	13,240
West	CTPark West (BTS)	CTP	10,045
South	BILK Logistics Park	Prologis	21,300
South	South Pest Business Park (DÜP)	WING	9,100

2019  
**DELIVERIES**  
(SELECTION)

**Rents**  
**4.60**  
EUR/sqm/month

The general increase of rental levels has halted in the recent months. However, an ongoing increase in construction cost places pressure on new developments pricing and this, combined with low vacancy rates on the market, **resulted in repricing in the existing stock** as well. The typical asking rent for new leases in existing schemes was **4.60 EUR/ sq m/ month**, while offers for new developments went **up to 4.95 EUR/ sq m/ month**.

**Pipeline** 2020  
(selection)



PROJECT	DEVELOPER	AREA (SQ M)
CTPark West	CTP	75,000
CTPark East	CTP	37,000
CTPark South	CTP	23,000
OTP Budapark	OTP	22,000
Park 22	White Star	18,000
East Gate Business Park	WING	16,000
Prologis Harbor DC11	Prologis	14,000
BILK new	Waberer	9,400
Budapest Dock Szabadkikötő	Westbay	10,000

**KEY LEASING** 2019  
TRANSACTIONS

PROJECT	SUBMARKET	SIZE (SQ M)	TYPE
Prologis Park - Budaörs	West	27,820	Renewal
Üllő Airport Logistics Park	Airport	27,760	Renewal
Prologis Park Budapest - Gyál	East	22,180	Renewal
Prologis Park Budapest - Gyál	East	20,750	Renewal

**Forecast** sq m  
**190,000**  
due in 2020

Demand will remain strong in 2020 and the vacancy rate is expected to slightly increase as a result of ongoing constructions. There is currently **190,000 sq m of new industrial space under construction** and due in 2020 with nine schemes being underway. 30% of this have already been pre-let. However, based on recent trends, some projects currently thought to be under construction will likely to be delayed to move ahead due to the preparatory ground works. **The strongest activity will concentrate in the Budapest-South and -West submarkets.** CTP is the most active developer on the market delivering more than 60% of the total expected new industrial space.

### Sales growth

Domestic consumption growth remained high due to positive economic factors boosting the retail market in Hungary. The historic low unemployment rate, the strong real wage growth and the expansion of the economy all **led to an expansion in the retail trade by 7%** in 2019 and the growth rate is forecasted to remain **one of the strongest in Europe throughout 2020** as well.

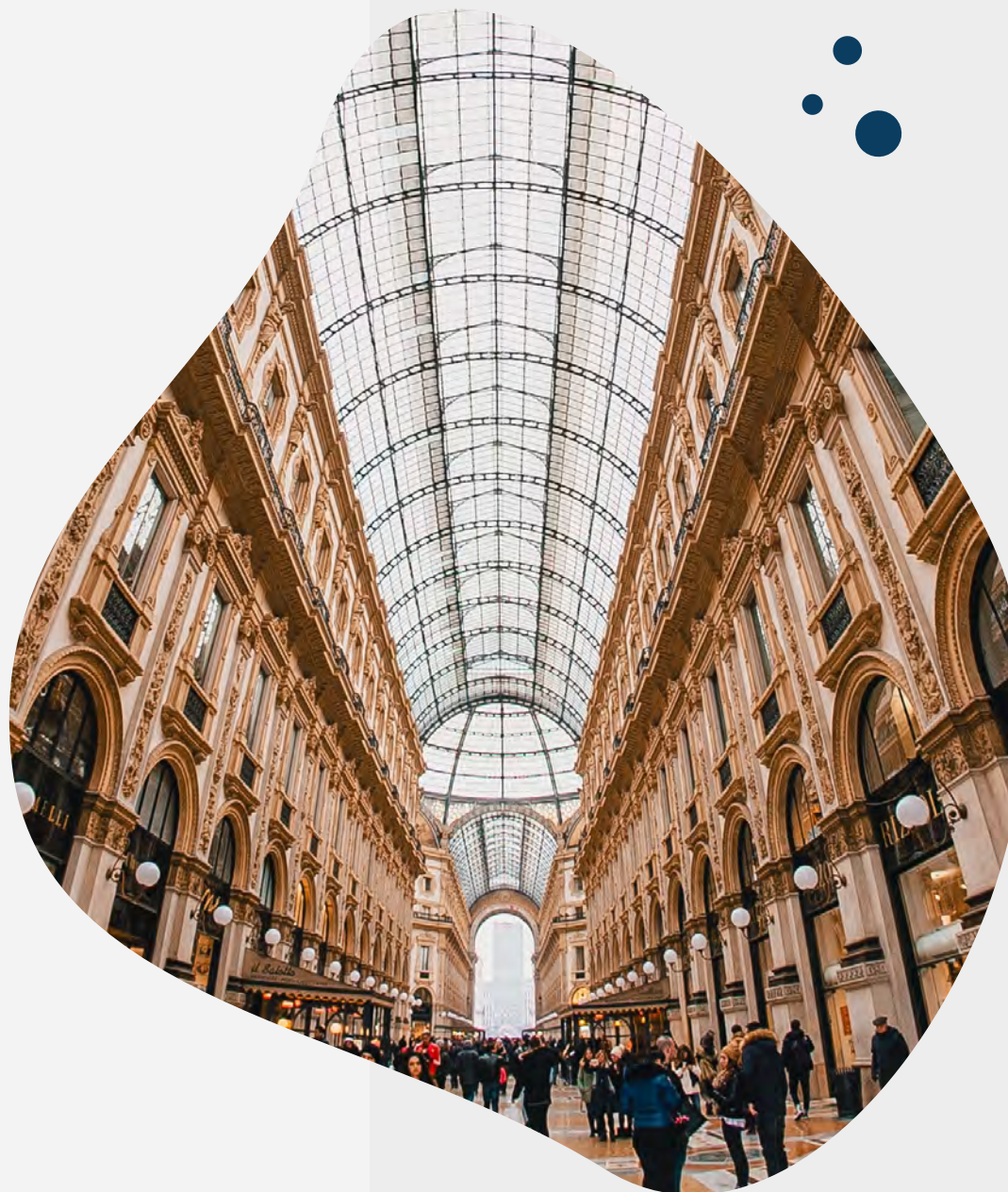
# Retail Market Shopping Centers

## Supply sq m 772,000

The modern shopping centre stock is **772,000 sq m in Budapest** with no projects delivered in 2019. The expansion of retail stock remains prevented by the "plaza ban" law.

**Etele Plaza** is the only shopping centre under construction **developed by Futureal**. The completion is scheduled for 2021 and will add 55,000 sq m extra space to the Hungarian shopping centre stock level. ECE's developer announced that instead of the previously proposed shopping centre building, they are now planning to develop a mixed-use project with offices, hotels and retail units.

Several existing shopping centres are going through extensive refurbishments. **Aréna Plaza** is going through a modernization and expansion project; the refurbishment of **Allee** is expected to start in mid-2020; **Westend** will undergo a substantial 3-year-long refurbishment; **KÖKI** and **Euro-center** will be modernized.



## Demand 11 new entries

Strong investor demand for prime retail space will continue to exist with investment opportunities remaining limited. **11 new brands were registered in 2019** which is below the figure compared to last year. This is due to different factors such as limited tenant incentives and high labour costs.

## Forecast

The Hungarian economy grew at the fastest pace in a decade and private consumption growth remains a major factor of this economic growth, supported by **labour market conditions and the increase in real wages**. This also influences the retail market, and together with the expansion of tourism, the demand for prime locations will remain high.

The delivery of new schemes remains prevented by the "plaza ban" law. Landlords of existing schemes are responding to this with **refurbishment and physical extension of the existing buildings**.

Changed customer needs have influenced the retail market environment and require a reaction from owners of retail buildings by implementing a fresh trade mix. Shopping centres are expected to focus on the **Food & Beverage sector**, such as larger food court and restaurant area, and **unique leisure elements** to meet new customer expectations.

## Rents

Prime rents have remained flat and not grown due to tenants' other increasing costs. Rents for prime units:

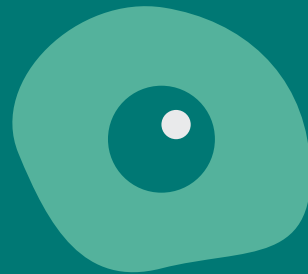
**Shopping centers:** .....  
97 EUR/sqm/month.

**High Street:** .....  
115 EUR/sqm/month

# Workplace Predictions for the New Twenties Decade

*“Never make predictions especially about the future”*

- Casey Stengel, Author



As the new decade is born, we ask ourselves what will be the transformations that we will see in our workplaces over the next ten years?

Change is often quite gradual and it is only when we look back that we see how far we have come, so before we go forward let's review the changes that have occurred over the last five decades.

## Future Predictions for the Twenties

What will the future hold for us in the workplace over the next decade? Well, our Consulting team spread across Europe, with hundreds of years of workplace consulting experience between them, and backgrounds in psychology, tech, economics, finance, design and change management have come up with the following for you to consider:

**Robot assistants** will be in attendance in meeting spaces to take notes, manage the AV, and bring the coffee.

If regulation clears the way **drones** will be seen cleaning windows, maintaining the exterior of offices, providing security and delivering parcels or even pizza...

Office buildings will have **large battery cells** in the basement which will be charged up overnight and power buildings by the day, smoothing the peaks and troughs of energy demand, enabling greater reliance on renewables and dramatically reducing the reliance on fossil fuels.

**Wearable tech** and **IOT** will become more integrated enabling all sorts of unimaginable connections in the office –back sensors will alert you to correct your body posture, hydration wearables when you need water, ear ‘buds’ will enable you to tune into conference calls, music or even translate colleagues foreign language jokes so they will no longer be lost in translation.

**Wellbeing and sustainability** will be fully integrated into the workplace.

Ties and formal dress wear will be back in vogue not by mandate but choice. The new generation will want to **dress smart**, whilst Gen Z execs will not understand this new crazed formal attire

**Human well-being** in the office is already topical but we anticipate the physical, emotional, spiritual, intellectual and social wellness will all become increasingly important in the next few years.

**Sensors and IOT** will make our buildings so smart that they will be able to personalise our spaces – lighting, temperature, humidity, scent – to our individual preferences and for specific activities. Work Space will become Your Space.

**The rise of plants and biophilic design** will surge as employees will not be as easy to convince that working in buildings, away from nature and often away from natural light is not harmful to their physical and mental state.

Employees will want to be focused on **meaningfulness** and **causes**, not just reward and applause.

## 512 OFFICES

60 TERRITORIES  
19,030 PEOPLE

**Independent, international,  
commercial, residential.**

Locally expert, globally connected.

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