

Avisource

2024 H1 Budapest

Office Market Tracker

Highlights

- Strong demand for offices in Budapest with H1 leasing volumes up 20% y-o-y.
- New deliveries in H1 2024 amounted to 63,600 sqm across 5 buildings.
- Development pipeline is now drying out beyond the end of 2025 and projects are only launched for owner occupation or with significant pre-lease secured.
- Vacancy rose marginally reaching a level of 13.90% and is expected to rise further due to the delivery of 350,000 sqm of state-owned office space till 2026.
- Tenants and investors alike are showing an increasing focus on assets with ESG credentials, translating into a generally lower vacancy levels in such buildings.
- Pressure remain acute due to fit-out costs limited decline.



TOTAL
OFFICE STOCK

4.4 m sq m



NEW SUPPLY
2024 H1

63,000 sq m



VACANCY RATE

13.9%



UNDER CONSTRUCTION
/ REFURBISHMENT

440,000 sq m



Richter HQ



Millenium Gardens II



Baker Street Phase 1

New supply

Deliveries amounted to 63,600 sqm across 5 buildings, roughly in line with the 69,000 sqm delivered in H1 2023 and 76,000 sqm in H2 2023. Occupancy stood above 75% (including 27,000 sqm of owner occupation - 39% of new deliveries) in those buildings at handover.

After an exceptionally low level 2023 (6,200 sqm in total), owner-occupied building deliveries reemerged with 27,000 sqm delivered in the first half. The largest deliveries included Millennium Garden Phase II in the Pest Central submarket (16,500 sq m), the new Richter HQ in Pest non-Central (17,400 sq m) and Bakerstreet Phase 1, the new HQ of e.on in Buda South (16,645 sq m).

New supply in the second half of 2024 is now expected at 192,000 sqm including 97,000 sqm of owner occupation (Hungarian State and State owned companies).

Q	Building	Submarket	Size (sq m)
Q2	Richter HQ	Pest non-central	17,400
Q1	Millennium Gardens II	Pest central	16,900
Q2	Bakerstreet I	Buda south	16,600
Q1	Knorr-Bremse R&D Center	Buda south	9,500
Q2	Liget Center Auditórium	Pest non-central	3,200

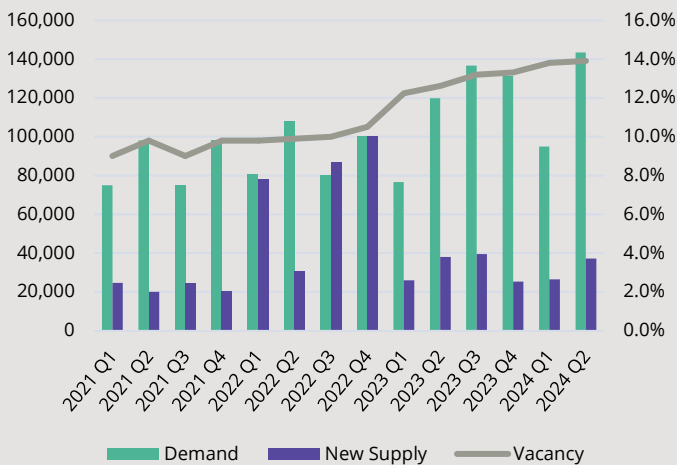
Source: BRF, Avison Young

Rents and Service Charge

Following the “explosion” of service charge levels in 2022 mainly driven by energy prices, and “normalization” in 2023, operating costs have stabilized in 2024 and are at acceptable levels.

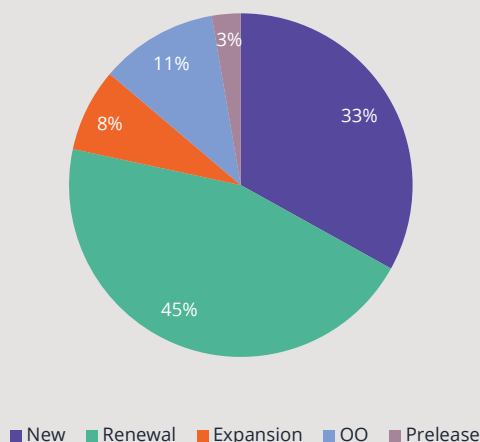
After the decrease of inflationary pressure, but with still high financing costs, the asking rent prices have been stagnating on the market, with most negotiations rather revolving around TIs (rent-free periods, fit-out contribution...).

New Supply, Demand and Vacancy sq m, %



Source: Avison Young, BRF

Demand 2024 H1



Source: Avison Young, BRF

Prime headline rents (£/sqm/mth)

CBD	22.00 – 25.00
Inner City	16.00 – 21.00
Outer City	12.00 – 16.00



Source: Avison Young

Leasing Activity

The first semester of 2024 showed a good recovery of the take up activity with Q2 volumes 20% above Q1 levels and the full first semester accounting for 238,000 sqm showing a 20% increase y-o-y.

The bulk of the leasing activity is still being generated by renewals (45%) with the portion of new leases (33%) shrinking significantly compared to H2 2023 (44%) and owner occupation moving up to 11%.

The Váci Corridor remains the most popular and active submarket with 27% of the occupational activity, very closely followed by Pest Central (24%), and Pest non-Central (24%).

The most significant leasing transactions included a renewal and expansion combination of Morgan Stanley premises in Millenium Towers (20,000 sqm), the renewal of Sanofi in Váci Greens Buildings E and F (7,455 sqm), the new lease of MÁV, the Hungarian national railway, in the Telekom HQ building (6,600 sqm). As earlier mentioned, those lease transactions were complemented by significant owner occupation activity with the new Richter Gedeon HQ (17,400 sqm) and the Knorr-Bremse R&D Centre (9,500 sqm) being delivered.

Take-up (sq m)	2024 H1	2023 H1	Y-o-y
Gross take up	238,000	197,000	+20%
Net absorption	34,000	-7,000	

Source: BRF, Avison Young

Buildings	Occupier / Tenant	Area (sq m)
Millenium Towers	Morgan Stanley	20,000
New HQ	Richter Gedeon	17,400
R&D Centre	Knorr-Bremse	9,000
Váci Greens E and F	Sanofi	7,455
Telekom HQ	MÁV	6,600
White House	Instant Group (Jaguar)	6,115
Advance Tower	KPMG	5,200
Daróczy út 30.	Colas	3,400
Kész Mester Udvarház	Book	3,000
Csalogány 43	Budai Egészségközpont	2,900
Váci Greens A	Genpact	2,800

Source: BRF, Avison Young



6.75%

Prime Office Yield

Economic Background

After raging inflation and recession for most of 2023, the beginning of 2024 brought a recovery, with inflation reaching a new low of 3.6% at the end of Q1. The National Bank of Hungary reacted by progressively lowering the base rate in 6 consecutive cuts down to 7.00% by the end of June. The lower inflation environment is expected to persist as the Hungarian economy is struggling to return to a sustainable growth path. The good performance of Q1 (+1.1%) was followed by a disappointing Q2 (-0.2%). The full year consensus 2024 GDP forecast stands now at +1.5%.

There was a slight increase in the unemployment rate, reaching 4.4% nationwide, while wages increased in real term after significant decreases during the high inflation phase of 2022-2023. Significant further increases in unemployment are not expected and the employment market remains very tight for white and blue collars.

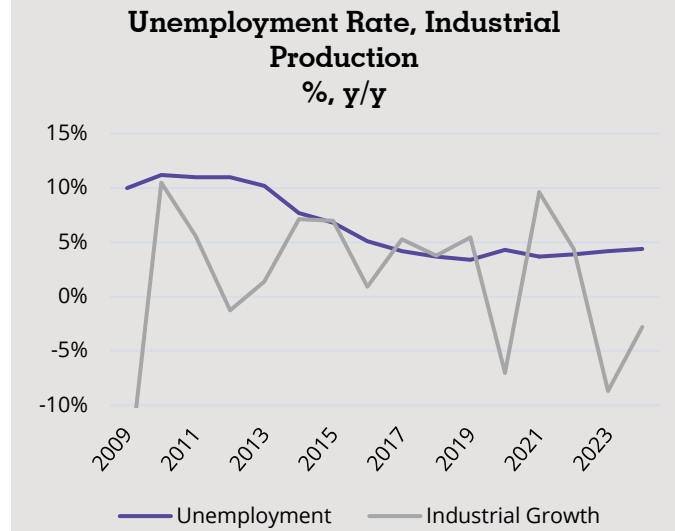
Office Investment

The H1 investment market was sluggish in all asset classes and particularly for offices where no institutional product traded. The volume of office investment stood below €20 million, lowest level on records, and was composed of several small transactions. During the same period of 2023, office investments amounted to €106 million. In this context, pricing is becoming a difficult exercise, with the yield range widening significantly from 6.75% for prime to double digit levels for older stock with vacancy or ESG defaults.

The second semester should show improved traction and liquidity for the market has new buildings and older stock are under marketing and due diligence.



Source: CSU, Avison Young



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Contact us

Benjamin

Perez Ellischewitz, MRICS

Principal

+36 70 333 1818

benjamin.perez-ellischewitz@avisonyoung.com

Jake Lodge, MRICS

Principal

+36 30 619 4821

jake.lodge@avisonyoung.com

Martina Cifer

Head of Office Leasing

+36 30 280 2545

martina.cifer@avisonyoung.com

Gábor Varga

+36 30 619 4821

Research and Capital Markets Analyst

gabor.varga@avisonyoung.com

