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GUEST WEBINARS

# An Introduction to Commercial Office Markets Budapest

In partnership with:

**UCEM**





# An Introduction to Office Investment Markets: Budapest



**Mike Edwards**

## Industry

- Head of Valuation & Advisory, Central Europe, Cushman & Wakefield, Hungary
- Specialist in advising owners, occupiers, stakeholders and financial institutions in their property decisions across the UK and Central Europe.
- Mike also coordinates Cushman & Wakefield's liaison with affiliate offices in the region, in Bulgaria, Croatia, Georgia, Kazakhstan, Romania, Serbia and Ukraine.
- His team delivered Hungary's sharpest-ever office yield and record lot size.
- Mike has worked on properties as diverse as airports, marinas and student accommodation as well as the bulk classes of retail, offices, industrial and land.
- As well as his Central Europe role, Mike is past Chairman of the RICS Hungary's Valuation Professional Group.

## Academia

- Graduated from BSc (Hons) Estate Management, University of Greenwich, London.



**David Hourihan**  
MSc FSCSI FRICS FHEA

## Academia

- Graduated from UCEM MSc in Property Investment in 2008.
- UCEM Programmes Leader for the BSc Real Estate Management and MSc Real Estate.

## Industry

- 17 years of commercial real estate experience across the UK and Ireland.
- Specialist in investment, office agency, retail asset management and valuation.
- Previous positions with international firms including JLL and Colliers International.
- Acquisition and asset management instructions for clients including Société Générale, Metzler Bank, Mobil Oil, Scottish Widows, Aviva and British Land.

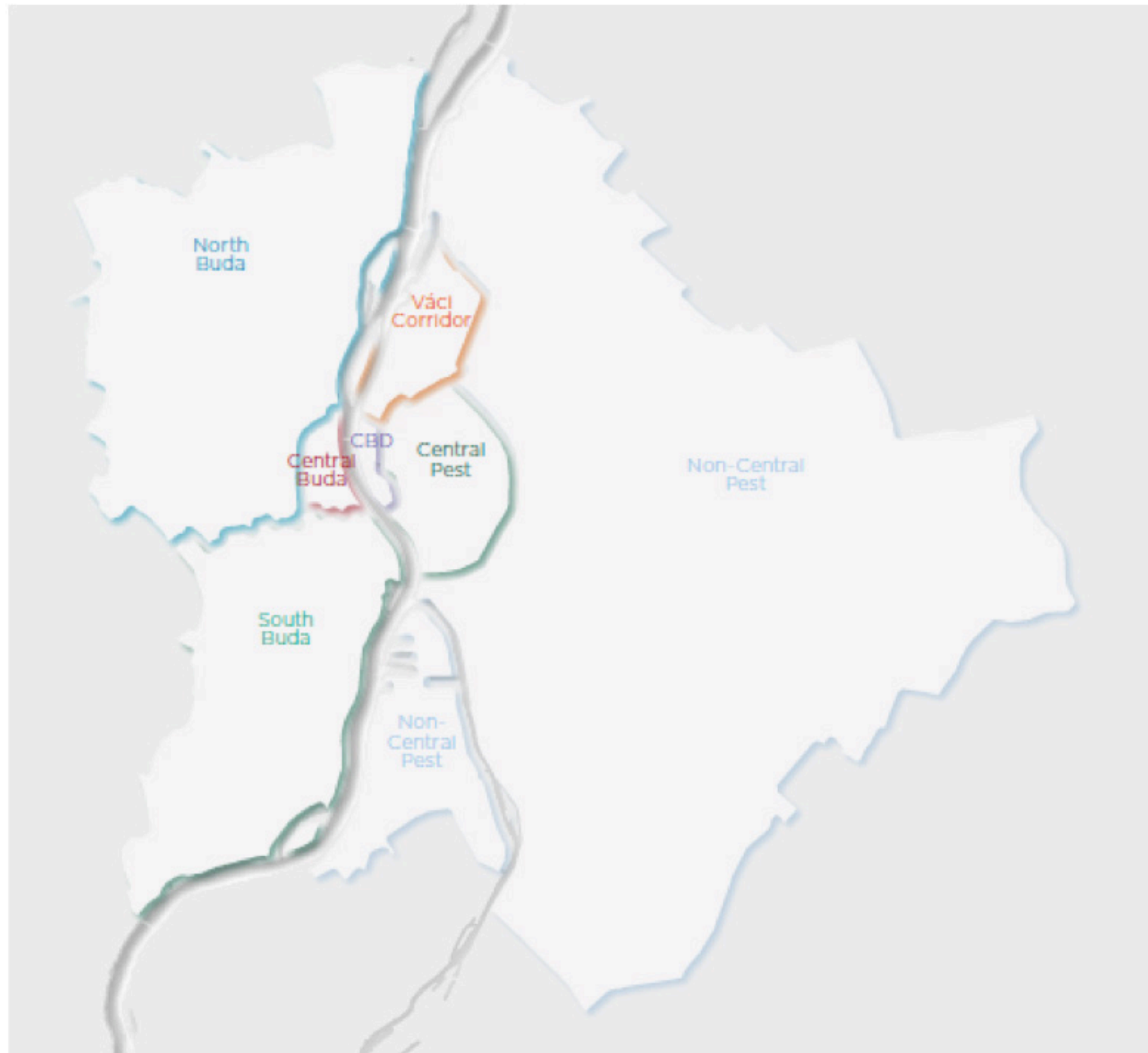
## SCSI/ RICS APC

- APC Chairman/Assessor.
- RICS Governing Council – Academia & Education Seat.

# 1. Introduction: The Budapest Office Investment Market - Overview

## Budapest Office sub-markets:

- Budapest can be divided into 8 submarkets
- Each has its own characteristics and attracts different types of occupiers.



Source: Cushman and Wakefield

**Non Central Buda North:** primarily a high-end residential area, Districts III, II, XII has delivered isolated buildings in addition to small clusters and even a campus development in the form of the IT focussed Graphisoft Park.

**Central Buda:** as with the CBD, this is a historic core and there are limited institutional grade buildings or opportunities to develop in this zone. This area is popular amongst SME's.

**Non-Central Buda South:** This area saw a lot of development, as developers sought to create an alternative back-office destination to Váci corridor. Much of the area has poorer communication links compared to the Váci corridor, although it benefits from the substantial District XI workforce and central locations benefit from proximity to universities.

**Periphery:** comprising buildings outside the city borders (practically Budaörs, Törökbálint, Batorbágy, Vecsés), these areas were delivered pre-crisis and are not popular amongst occupiers.

**Váci út corridor:** This is Budapest's "office corridor" and has been substantial development having available sites, work good communication links through the metro line, Danube bridges and the substantial Váci út. It is the primary "back office" location for the international tenants.

**CBD:** A historically protected area; there are a few class A products meaning the CBD is effectively the smallest in the region, and there are few opportunities to develop further. Popular amongst SME's and professional service providers.

**Central Pest:** covering a large area to the east and the south of the CBD, Central Pest has seen development in consolidated pockets, particularly along the river. Southern parts benefit nearby residential developments and proximity to universities.

**Non-Central Pest:** This is a general area encompassing "everything else" in Pest and is a mixed bag of product but is one of the most dynamically developing submarkets of the city. The area has seen scattered developments along Hungária krt and Könyves Kálmán krt. These focal points have emerged typically along fixed-track public transport.

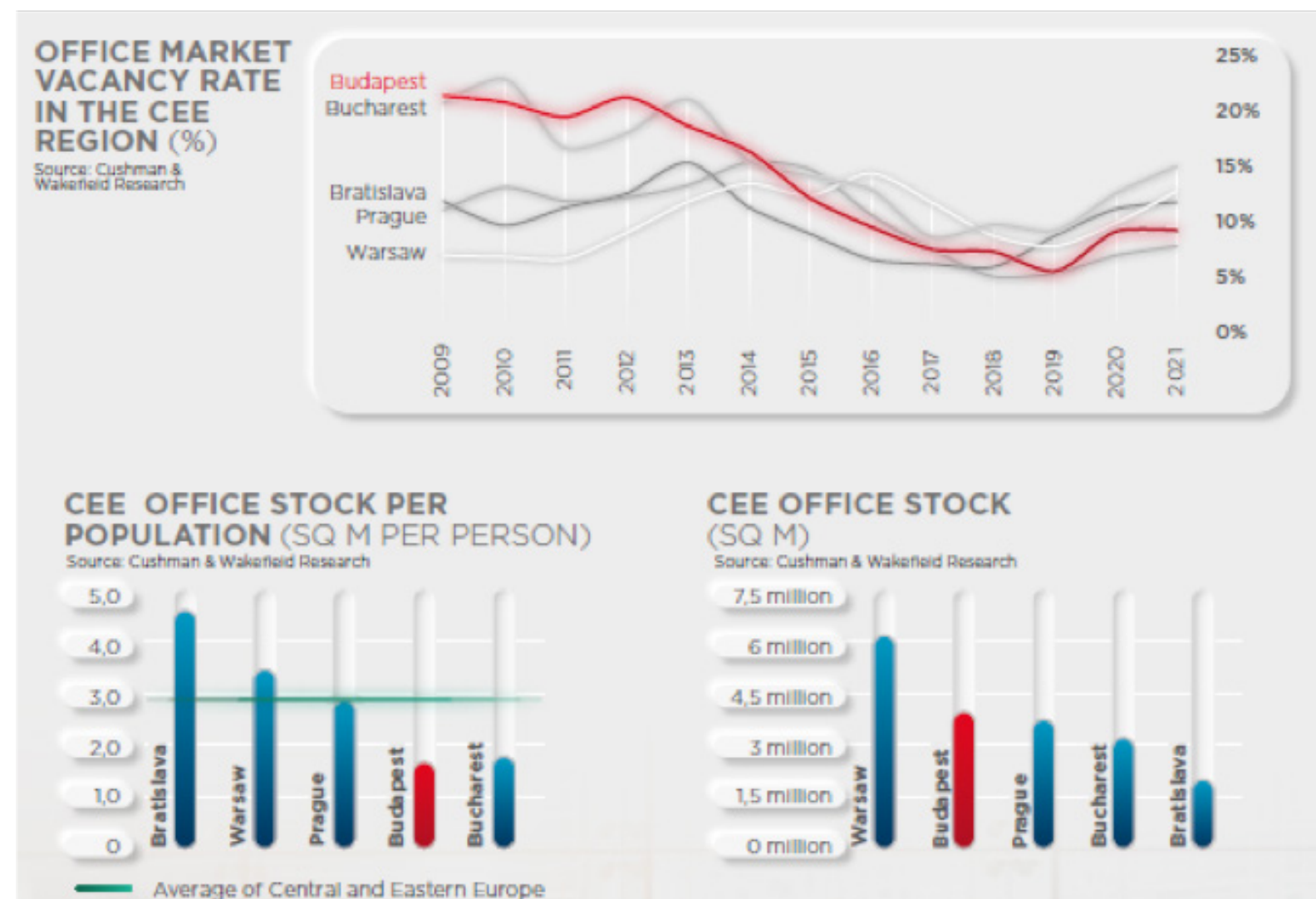


## 2. Budapest Office Lettings Sub-sectors

### Budapest Office Occupier Market

#### 2022 - Office Occupier Market

- The Budapest office market is the largest in Central Europe after Warsaw.
- The stock per capita is the second lowest in the region – indicating an undersupply of office supply and scope for growth.
- Budapest office stock reached a historic milestone recently when the total modern inventory exceeded 4M sq m.
- Both net take-up and total leasing activity (incl. renewals) increased y/y by 9% (to 42,100 sq m) and by 7% (to 80,100 sq m), respectively.
- Vacancy rate moved up to 9.8% (+0.9 pps y/y), while its reading is still lower for 'A' grade stock (9.1%).



Source: Cushman & Wakefield/CBRE

### Hungarian Office Lease Terms:

- Lease terms: typically, 3-5 years.
- Older offices available on flexible terms.
- Small companies prefer shorter terms say 1 year with option to renew.
- Rents quoted in EUR.
- Rent paid monthly or quarterly in advance.
- Rents indexed annually to Euro MUICP or HICP of the EU-28.
- Rent deposits or guarantees often for up to 3 months gross rent.
- Break options for terms longer than 5 years. Tenant rental penalties (generally 6 months) attached. Not accepted in new developments.
- Subletting is common, subject to landlord's prior consent.
- Option to renew is common (5 yrs + 5 yrs).
- Landlord provides standard fit out (suspended ceilings, ceiling lighting, standard restrooms and gypsum walls. Landlords offer a cash allowance in addition to the standard fit-out depending on scale/type of deal.
- Service charge can be quoted in HUF but paid in EURO.
- Agency fees: Each party pays its agent separately. The law prohibits agents representing both parties.
- Property tax part of the service charge.
- For office leases, VAT is 27% of the monthly rent plus service charge.

Source: CBRE

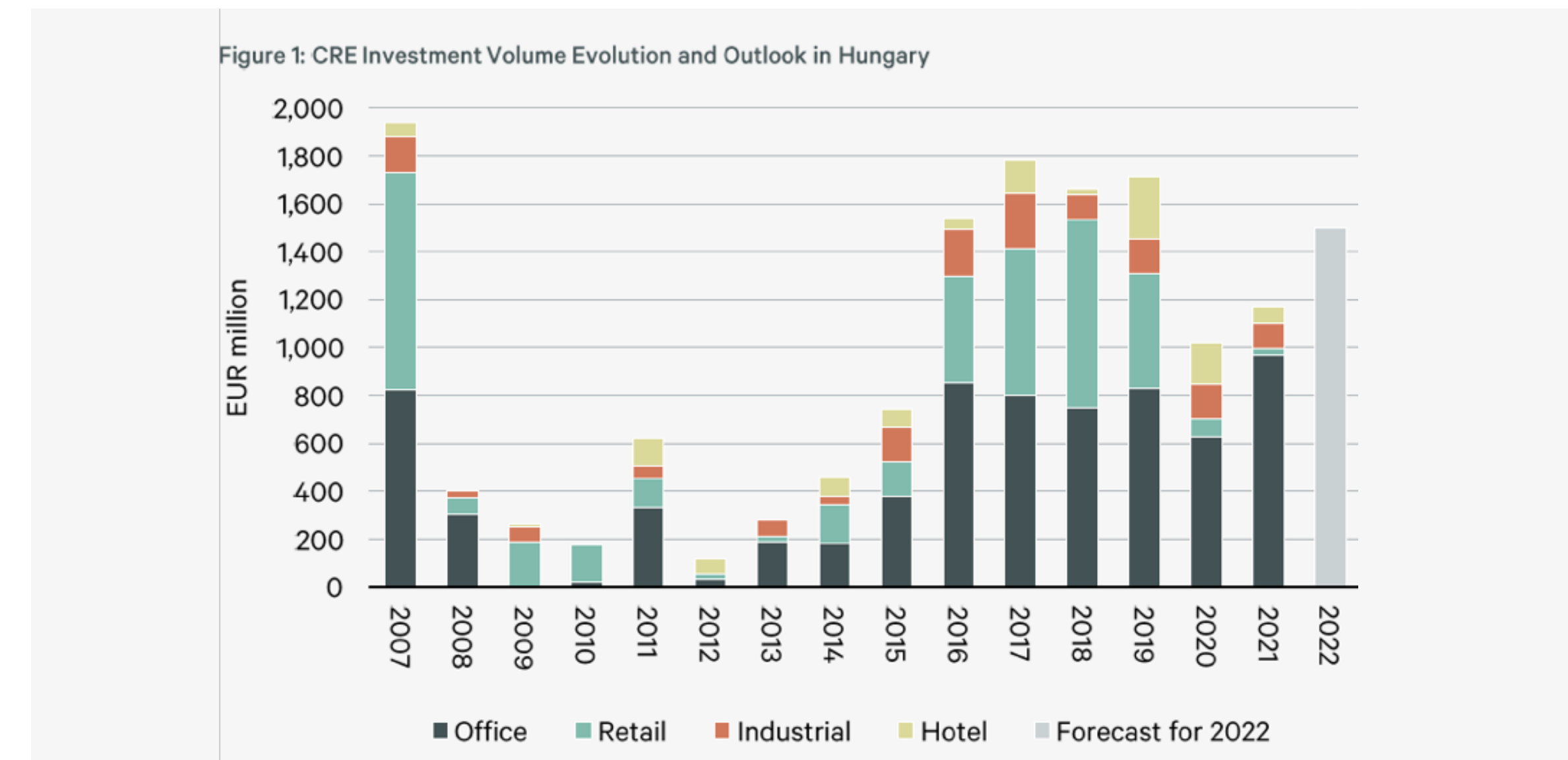
### 3. The Budapest Office Investment Market: Key Statistics

#### Budapest Office Investment Market in 2022

- The office sector remains the backbone of investment activity in Hungary.
- Hungarian investment turnover in Q1 2022 was mainly boosted by transactions carried over from last year and amounted to 190M EUR in Q1 (ca 450M EUR by end of April).
- Q1 volume was practically flat on the same period last year, 12m rolling total volume also remained static at 1.15B EUR – as opposed to 1.7M two years ago.
- While we had expected a slower than usual H1 due to the scheduled national election in April, the escalating war in Ukraine has had a far bigger impact on investor sentiment.
- During the first three months of 2022, 65 transactions were concluded in CEE & SEE countries, with 34% less than in Q1 2021, but we can observe an increase in average ticket size from 22 million EUR in Q1 2021 to 49 million in Q1 2022. The overall investment volume increased 45% reaching 3.2 billion at the end of Q1 2022.
- The primary source of capital in Q1 2022 were investors from other countries outside CEE & SEE, with a share of 74%. The American investors claimed 43% of the total volume, followed by investors from Western Europe with a share of 38% and South African investors with a share of 13%.

Source: CBRE/ DLA Piper

- At the end of Q1 2022, prime yields kept a stable pace for most CEE & SEE countries' office, retail, residential, and hotel segments. Properties from industrial showed a compression of 25bps in the following countries: Czech Republic, Hungary, Slovakia, Serbia, Slovenia, and Croatia.
- Recent notable core sales included the Evosoft and Ericsson HQs, Szervita Square Building, BudaPart Gate, Váci Greens D and F as well as the portfolio including Infopark B, C, D and I.



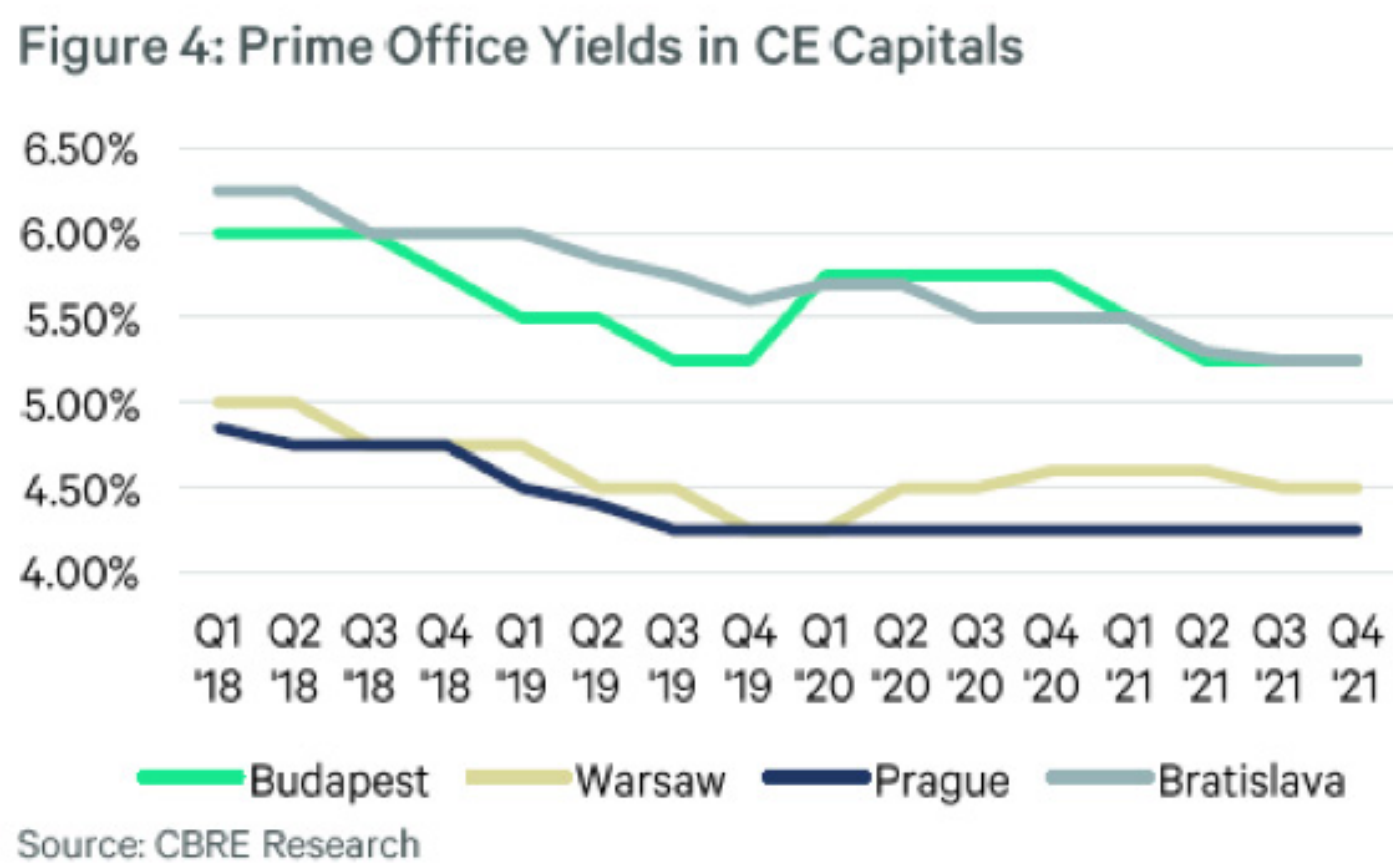
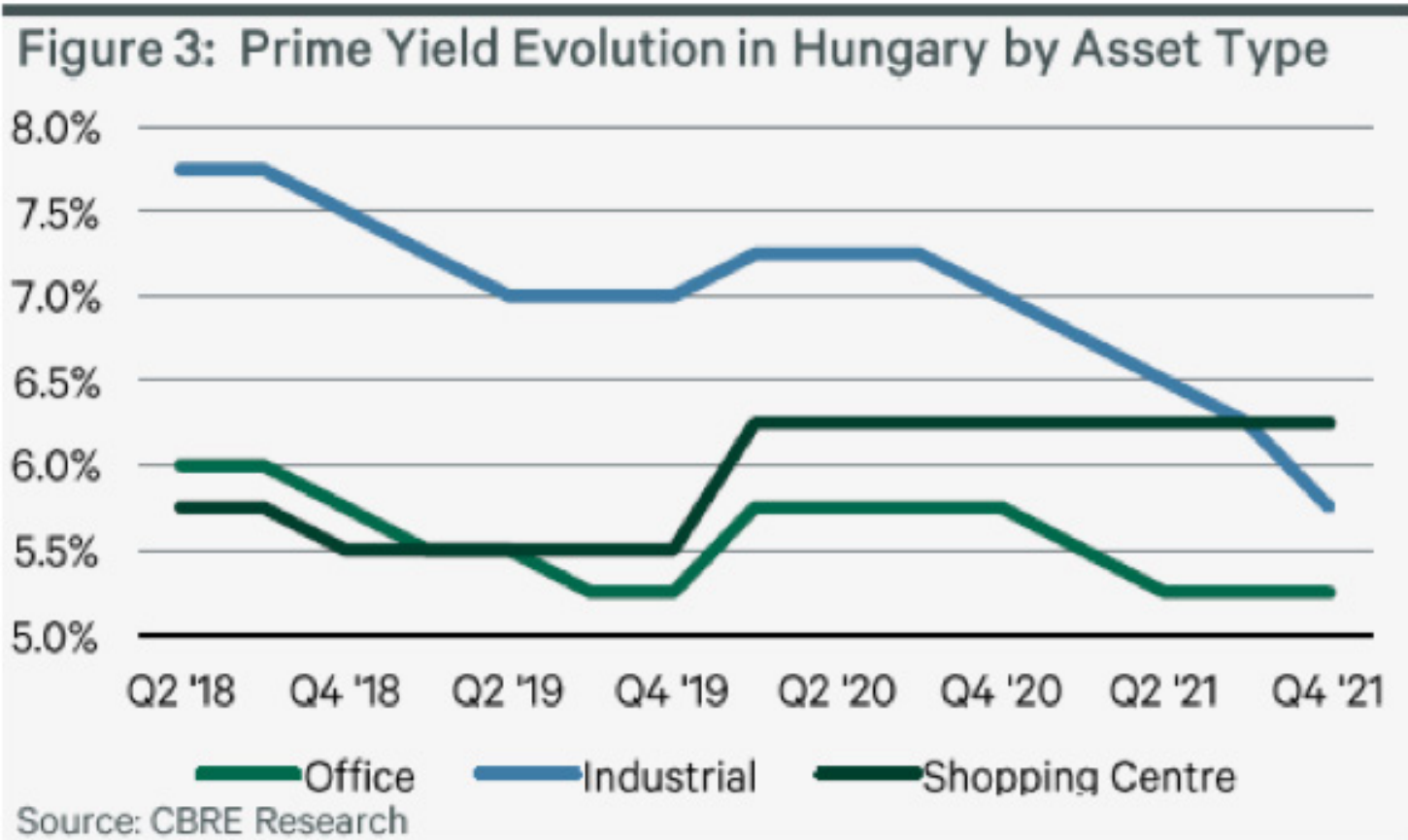
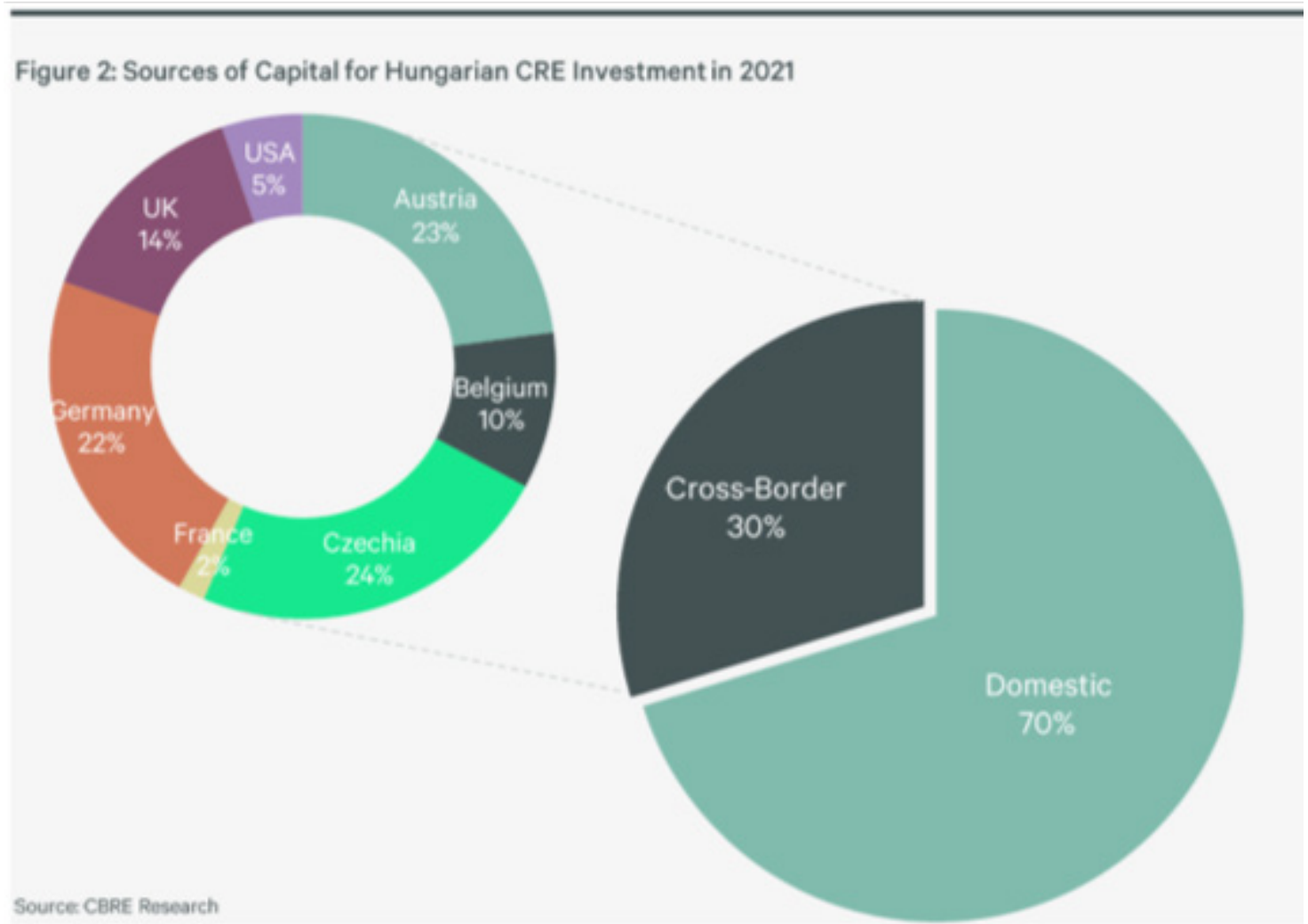
Source: CBRE Research



### 3. The Budapest Office Investment Market: Key Statistics

#### Budapest Office Investment Market in 2022

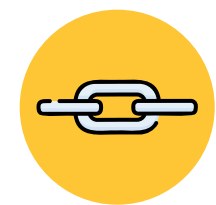
- 2021 was generally characterized by improving pricing sentiment in Hungary.
- Prime office yields returned to pre-pandemic yield of 5.25% by mid 2021 (-50bps in H1).
- Divergence between Prime and Secondary investments due to ESG as a key driver.
- Domestic institutional investors dominated the Hungarian investment market in 2021. Foreign investors focused on a broad mix of investments from Core to Value Added in 2021 but in 2022 there has been a greater more defensive ‘flight to quality’ focus on Core investments.



Source: CBRE Research

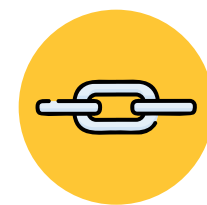
## 4. The Budapest Office Investment Market: **SWOT, Key Trends & Forecasts**

### SWOT of Budapest Office Investment



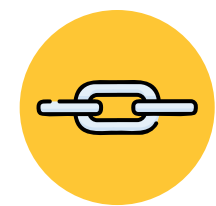
#### Strengths

- JLL GRETI 2020 (11th edit) – Hungary ranked no 27 out of 99 countries and territories and categorised as 'Transparent'.
- Low corporation tax.
- Low stamp duty.
- Attractive location bordering seven other nations.
- Strong economic links to German economy.
- Hungarian company law and Civil code comparable to those in Germany.



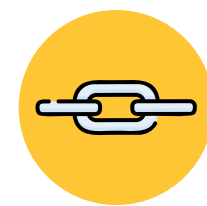
#### Weaknesses

- Low population outside of Budapest.
- Permit required for foreign purchasers.
- Tight labour market – Unemployment at 3.7%.



#### Opportunities

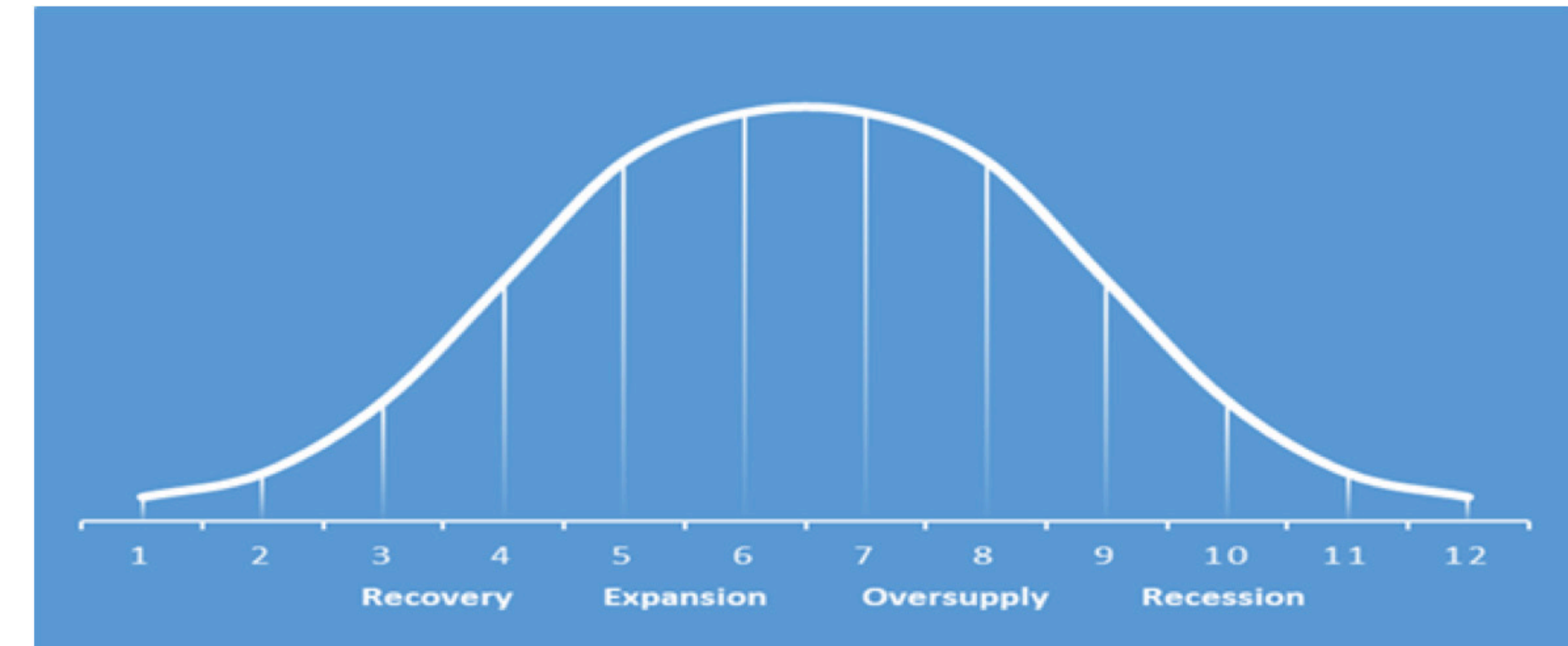
- Shift away from stocks to real estate assets in defensive move by investors.



#### Threats

- Government declares state of emergency.
- Economic impact of Ukraine war.
- Covid-19.
- Inflationary and energy price pressures.
- Relationship with EU.

Where is the Budapest office investment market in its life cycle?



#### Key Predictions for 2022

- Office vacancy rates in Budapest office will continue to grow in 2022 due to increased supply of new space.
- The main focus for occupiers (and office investors) will continue to be on the Váci út Corridor and CBD districts.
- Prime 'Grade A' rents are should remain stable at €15.9 per sq m / per month but incentives may come more into play on a case-by-case basis.
- Excess demand from investors for ESG-compliant prime office investments will continue.

Source: CBRE





**Thank you for attending our webinar.**

## Upcoming webinars

- An Introduction to Commercial Office Markets - Warsaw

15<sup>th</sup> June 2022 | 11:00am BST

- An Introduction to Commercial Office Markets - Prague

22<sup>nd</sup> June 2022 | 11:00am BST

- An Introduction to Commercial Office Markets - Bucharest

29<sup>th</sup> June 2022 | 11:00am BST



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