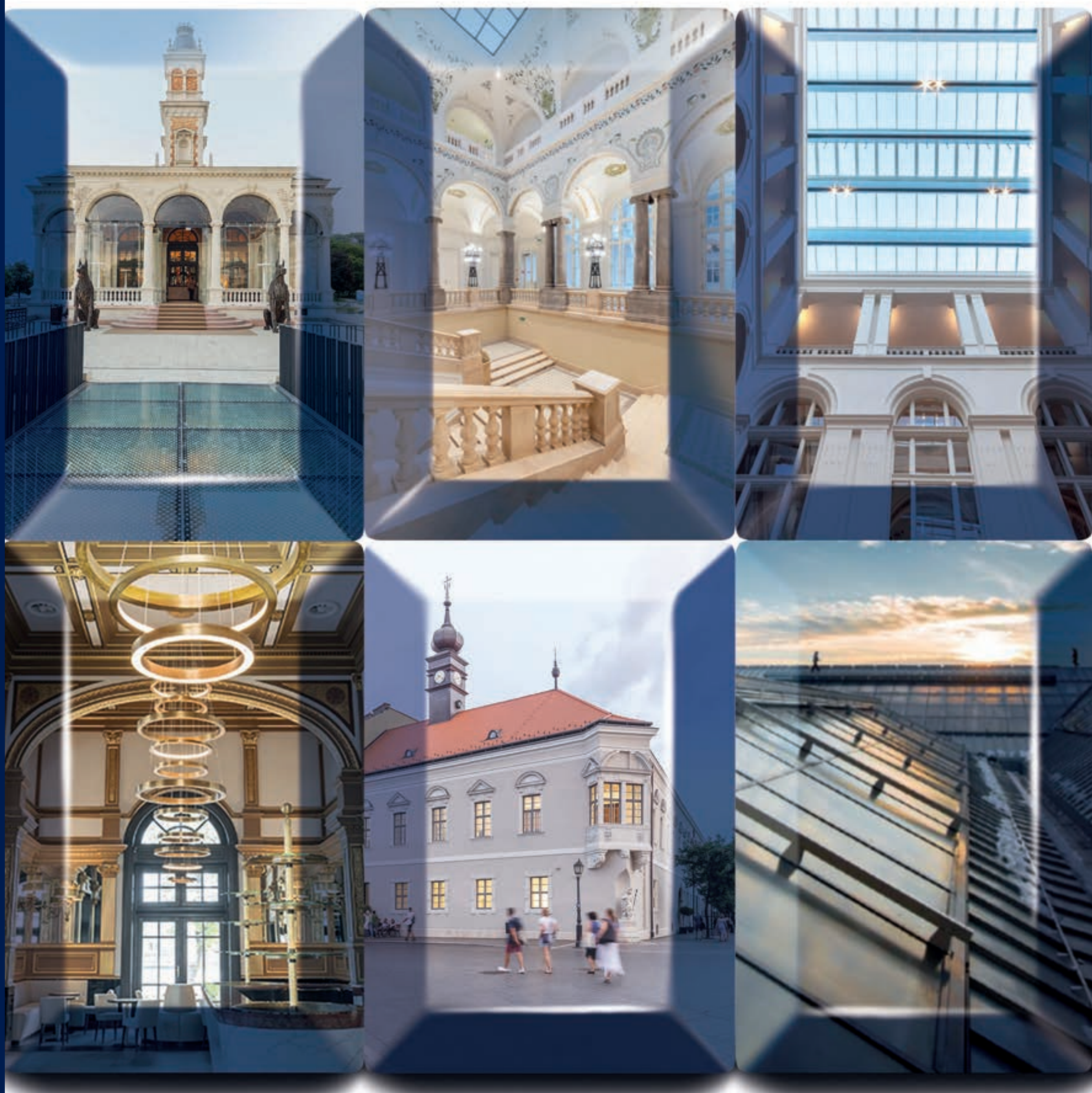
COMMERCIAL REAL ESTATE MARKET REPORT



2020

APRIL

“Your actions preserve you for the future.”

Miklós Ybl

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The commercial real estate (CRE) market is of substantial importance, as it influences all sectors of the economy while also playing an important role in people's everyday lives. In this light, Magyar Nemzeti Bank analyses the development of the CRE market in this report, which is published biannually.

The following two factors are decisive for the analysis of commercial real estate:

i. On the one hand, commercial real estate is a fixed asset used by economic agents as a production factor; therefore, its value is influenced by the interplay of supply and demand for this asset.

ii. On the other hand, commercial real estate is an investment vehicle: investors purchase such assets to realise a yield premium over and above the available risk-free return from the cash flow of utilising the real estate and/or the increase in value, while taking extra risk in the process.

Consequently, in addition to supply and demand trends, investor expectations are a key factor in the value of commercial real estate, similarly to financial markets. Furthermore, developments in the CRE market also affect the functioning of the financial system. This is primarily due to the fact that CRE-collateralised loans account for a significant share of banks' corporate loan portfolio, representing almost 40 per cent in Hungary in 2019.

As such a large amount of bank assets is CRE-collateralised, there is a strong relationship between CRE values and the credit cycle. During an economic upturn, a positive feedback loop may develop between rapid growth in real estate value and lending, which can lead to excessive lending. In an economic crisis, banks' non-performing loans burden institutions' capital adequacy, resulting in a reduction in credit supply. As seen in the 2008 crisis, the commercial real estate market plays a major role in banks' pro-cyclical behaviour. Moreover, corrections in CRE prices affect future investments and thus the real economy, which impacts banks' operating environment. A decrease in commercial real estate values generates deficits for banks and institutional investors with large CRE holdings and contributes to financial instability.

Consequently, the CRE market can negatively affect the stability of the financial system through multiple channels, and thus it is of the utmost importance for the Magyar Nemzeti Bank, as a macroprudential authority, to monitor and thoroughly analyse the commercial real estate market.

The Commercial Real Estate Market Report aims to provide an overview of the underlying economic processes and the system of interactions between economic agents. Consequently, this report represents a unique central bank publication at the international level, due to its integrated presentation of the macroeconomic and financial stability aspects of the commercial real estate market. The set of information used by the publication includes the following:

- *Presentation of the macroeconomic environment influencing the CRE market is based on the information in the MNB's Inflation Report.[1] Key statistical variables relevant to the CRE market include changes in the volume of gross value added, employment trends, changes in retail sales and changes in the yield environment.*

- *The analysis of the current commercial real estate market developments relies primarily on information provided by real estate consulting firms. The analysis is presented by market segments (office market, retail market, industrial-logistics market, hotel market), but as the Hungarian market is centred around the capital, the bulk of the data is limited to Budapest. A micro-database is available to monitor construction projects.*

- *The analysis of the CRE financing market relies primarily on balance sheet data from credit institutions and the interest statistics collected by the MNB; information on the qualitative features of lending developments collected in the Lending Survey[2] is also used.*

[1] Magyar Nemzeti Bank, Inflation Report: http://www.mnb.hu/en/publications/reports/inflation-report
[2] Magyar Nemzeti Bank, Lending Survey: https://www.mnb.hu/en/financial-stability/publications/lending-survey

Contents

1 Executive Summary

Following the market trends of increases in value seen in recent years, the COVID-19 pandemic unexpectedly hit both the domestic and global CRE markets in early 2020. The consensus among market experts is that the most vulnerable segments include the hotel and retail markets, but non-performance of contractual payment obligations may be typical for companies (tenants) in all segments. The moratorium on repayments initiated by the MNB as a precautionary measure and ordered by the Government on 18 March 2020 helped to prevent the risk of immediate financial instability and the potential spillover effects resulting from this situation in Hungary. The outlook for the duration of the pandemic and the extent of the economic consequences likely to affect the CRE market remain uncertain. After the short-term changes in work and consumption in the epidemic, such as the spread of working from home and online shopping, the long-term effects are surrounded by uncertainty, which must be considered on the demand and supply side. This uncertainty also has a negative effect on the market.

Following the trends from past years, 2019 was typically characterised by a high level of rental, investment and development activity in all segments of the domestic CRE market. Demand continued to be met by sluggish supply, leading to decreasing vacancy rates and rising rental rates. The appearance of new supply on the market fell short of expectations for all types of real estate, and late completion remained a constant factor. Strong development activity characterised the Budapest office market as well as the hotel sector on a national level. Vacancy ratios remained historically low in all market segments throughout the year, with the average vacancy rate of modern Budapest offices falling to 5.6 per cent and that of the Budapest and agglomeration industrial-logistics market to 1.9 per cent by the end of 2019. The end-of-year development data projected a significant increase in supply for the next 2-3 years, representing 16 per cent of the current existing stock of Budapest office and nationwide hotel capacities. However, the coronavirus pandemic which spread to Hungary in March 2020 could lead to a standstill, further delays and increased vacancy rates in ongoing projects. In the short run, the consequences of the situation will include reduced or postponed rental demand, as well as rental discounts and substantial revenue losses in all segments during the pandemic. Hotel revenues dropped to zero in a matter of weeks, and several hotel developments may be suspended or cancelled. The extent to which these sectors will change, due to factors such as a potential lasting impact on consumer behaviour, employment trends and supply chains, remains a question for the longer term.

Investment volume on the commercial real estate market reached EUR 1.8 billion in 2019 again, with 75 per cent of the investments attributed to Hungarian agents. The coronavirus pandemic will have a negative effect on investment activity as well, potentially shifting focus towards prime real estate with long-term stable income. The decrease in liquid instruments in Hungarian public real estate funds observed in Q3 2019 stopped by the end of the year, but the redemption volume of investment fund shares increased again in early March 2020. Despite the capital outflows in March 2020, the liquidity of the funds remained stable, further assisted by the MNB by making way for Hungarian open-ended public investment funds in the central bank's new longer-term collateralised loan tenders from the beginning of April. In addition, in March 2020 the MNB granted relief for credit institutions from the Systemic Risk Buffer (SyRB), which took into account problem-free foreign exchange project loan portfolios from 2020. In its Financial Stability Report in May 2020 MNB will survey the coronavirus impact on the financing of the sector relying on updated bank questionnaires.

2 Special topics: The impact of COVID-19 on commercial real estate

The coronavirus pandemic hit the Hungarian commercial real estate market amid extremely high rental, investment and development activity in specific segments. At the end of 2019, the vacancy rate for modern offices in Budapest was at a historically low 5.6 per cent with office construction projects of approximately 580,000 square metres in progress, leading to a 16-per cent increase in the coming years compared to the current existing stock. Moreover, office developments of an additional 440,000 square metres (12 per cent of the existing stock) were in the preparation stage. Intensive development activity is characteristic in the hotel market as well, currently including more than 8,500 hotel rooms in the construction or preparation stage, which would amount to a 16-per cent increase in domestic hotel capacities over a 3-year period. Capacity expansion is even greater in Budapest, with additional 27.5 per cent in supply growth planned. At the end of 2019, the most visited shopping centres of the capital city operated at almost 100 per cent occupancy rates with an average vacancy rate of 1 per cent, while the secondary Budapest shopping centres and the regional city malls had less than 4 per cent average vacancy rates. The spread of the pandemic to Hungary had a rapid, strong impact on all segments of the CRE market, primarily hitting the hotel and retail markets.

Following the market trend of increasing value seen in recent years, the COVID-19 pandemic unexpectedly shook both the domestic and the global CRE markets in early 2020. There is a strong correlation between CRE market cycles and economic cycles, with a phase delay of 1-2 years. The CRE market provides a significant portion of the physical infrastructure required by companies, which may – over the short term – potentially suffer full or partial standstills in 2020, due to disruptions in service and supply chains. During the preparation of the report in March 2020 market experts' expectations concerning the coronavirus impacts on commercial real estate ranged widely, but the consensus was that the hotel and retail market segments were particularly vulnerable. However, due to loss of revenue, companies (tenants) in all segments may – to varying degrees – be unable to continuously comply with agreed rental payment obligations. This may result in modified rental conditions, the provision of discount rates, or even termination of rental agreements. The moratorium on repayments initiated by the MNB as a precautionary measure and ordered by the Government on 18 March 2020 could help prevent the risk of immediate financial instability and the potential spillover effects resulting from this situation in Hungary. At the same time, a moratorium was introduced on the termination of non-housing rental agreements with effect on or before 30 June 2020 by landlords as an aid for economic agents facing difficulties.

MACROECONOMIC IMPACT

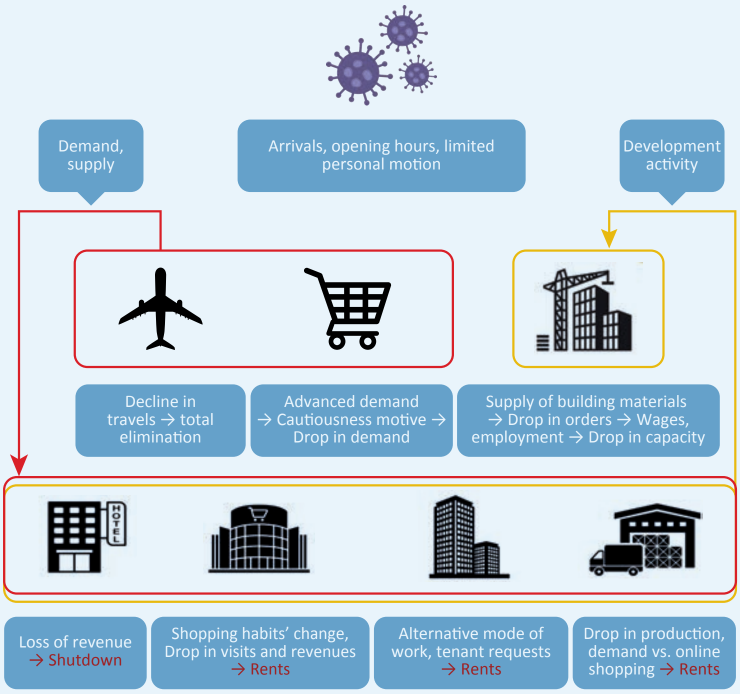
Experts from the Housing and Real Estate Market Advisory Board (hereinafter the 'Board') believe that the global economy – including the European economy – will slow down significantly as a result of the coronavirus pandemic, but its impact on growth remains a question. Based on experiences from earlier crises, even a short-term but wide-scale economic setback would have an adverse effect on the entire CRE market, possibly over a longer term.

HOTEL MARKET

Board experts think that the current crisis will have the most severe effect on the hotel market. An immediate, complete standstill and a prolonged setback in the hotel market could result in a series of bankruptcies. On the one hand, countries introduced travel controls and restrictions for foreigners at an early stage to curb the spread of the pandemic. On the other hand, most people decided to voluntarily cancel private and business trips to prevent infections. The Hungarian hotel industry will have to survive the spring period with minimal reservations and turnover in the summer months will be determined by how long the pandemic lasts. However, demand for domestic and foreign business and leisure travel will not disappear, but there is uncertainty whether the cancelled trips will be realised sooner, or rather later after the pandemic. A recovery in tourism will also depend on whether the economic impacts entail permanent economic setback and increased unemployment at the global level. Overall, the particularly positive trends of recent years in the tourism could be followed by a significant decline for hotels in 2020.

Currently, numerous hotel developments are in the preparation or construction stages in Hungary, possibly leading to a nearly 16-per cent increase in hotel capacities over the next 3 years relative to the end of 2019. The majority of these projects (60-70 per cent based on the number of rooms) has already reached the construction stage, thereby providing limited room for investors to discontinue development. Of the CRE market segments, there is a significant risk of mid-term oversupply in the hotel market.

Chart 1
Coronavirus-related impact on the commercial real estate sector



Source: MNB. Source of icons: Shutterstock.com

RETAIL MARKET

Short term: The coronavirus situation appears to have an immediate large-scale dual impact on the retail market sector. As a result of a sudden, sharp growth in demand, the pandemic has had a positive effect on some shop types (food industry, drug stores, pharmacies), while immediately affecting others adversely. Few agents have already fully closed their business down (including playhouses, nurseries, private health care); in other particularly impacted, mainly service activities (tourism, restaurants), the majority of the tenants reported inability to pay rental fees early on, but other segments are increasingly coming forward to request preferential terms due to loss of turnover. The only option available for restaurants is to step up food deliveries. Restricted opening hours introduced for retail units caused a significant loss of revenue for both the stores and the property owners, along with an approximately 40 to 80-per cent decline in footfall. The temporary increase in turnover experienced by food stores, drug stores and pharmacies cannot compensate for loss of business caused by the lack of visits to shopping centres. Turnover has been further reduced by an increasing preference for online shopping and home delivery in recent years regardless of the pandemic, which could be further encouraged by the situation. According to experts, many businesses could be destroyed without help from the landlords, which would further increase unemployment. The landlords, however, are not in a position to single-handedly finance these losses; government intervention would be essential to avoid major setback in the short term, likely to be followed by prolonged post-crisis recovery.

Long term: The Board experts contemplate two temporary trends with the easing of the coronavirus situation and the restrictions that have been introduced: in the positive scenario, consumer confidence and willingness will return out of relief, with strong demand for postponed community activities and events. Accordingly, the setback/standstill would be followed by robust consumer willingness and positive behaviour for a while, although influenced by post-pandemic economic conditions. The negative scenario assumes a high level of unemployment, depleted household savings and growing motivation for cautiousness, which will reduce post-pandemic consumption. Some experts believe that consumer behaviour may change permanently, with long-term negative impacts on the retail real estate market.

At the end of 2019, shopping centres in Budapest operated at relatively low vacancy rates of 1-4 per cent, and even cities with populations over 100,000 had an average vacancy rate of 3 per cent. Moreover, the effective regulations restricting the construction of retail space contributed to low vacancy rates and few new completions, with no medium-term risk of oversupply before the emergence of the pandemic.

INDUSTRIAL-LOGISTICS MARKET

Short term: The impact on the logistics market is strongly differentiated. In March, numerous manufacturing companies suspended production (such as Audi, Mercedes, Opel, Suzuki, and their suppliers), due to shortages of raw material in the production chain and declining demand for finished products. As a result, the logistics service providers of these factories will also be forced to halt or reduce the volume of services. According to experts, the transport-logistics market began to slow in a short period of time, and based on advocacy reports, the volume of deliveries from Italy and other severely impacted regions has dropped since the middle of March, possibly turning into a growing trend due to the spread of the pandemic. In the second half of March 2020, many companies faced temporary shortage of truck drivers and warehouse and logistics specialists, and the situation is further aggravated by travel restrictions introduced by various countries in land, sea and air transport. At the same time, logistics service providers may benefit from increased online sales resulting from restrictions on the retail networks, compared to other sector agents.

Long term: Provided that the logistics, transport and manufacturing companies are able to survive the European phase of the coronavirus pandemic and retain their workforce, a rapid post-crisis rebound can be expected as soon as production restarts. According to experts, however, the key is to retain workforce. As the sector is significantly exposed to manufacturing activity, a longer-term restriction or halt in production (such as in the electronics or food industry) would make it impossible for the logistics and warehouse companies to maintain their current structures.

Shortage of supply has been characteristic of the Budapest and agglomeration industrial-logistics market in recent years, with the vacancy rate dropping to 1.9 per cent by the end of 2019. Pre-lease contracts covered 25 per cent of the ongoing developments (in total 181,000 square meters) at the end of 2019. Finishing all available space without tenants in 2020, it would lead to a 7.3-per cent vacancy rate in the Budapest industrial-logistics market at the end of the year, a level not even considered too high. The supply and logistics chains could be gradually rebuilt with the recommencement of production after a temporary halt, provided that the coronavirus-related economic impacts comprise neither a permanent decline in demand, nor mass-scale insolvency and loss of confidence among partners.

OFFICE MARKET

Short term: The impact on the office market is already apparent, although to a lesser degree than the impact on the retail segment so far. In the current situation (or for the duration of the virus threat), difficulties will be inevitable in the serviced office segment[3] in respect of tourism, catering and air transport operators. Based on the experiences of the market agents, even the largest multinational companies and those of the least directly impacted sectors have recently come forward to claim discounts on rental rates. Consequently, the primary and spillover effects could practically increase in the office sector as well. On the supply side, office maintenance costs will increase due to enhanced cleaning and sanitising.

[3] Serviced offices (a type of service offering flexible office space) can provide not only space but also machinery, equipment and other services necessary for office work within a short time, based on short- or long-term lease tailored to the tenant's needs. Flexible office market, including coworking was discussed in Box 1 of the Commercial Real Estate Market Report published in October 2019. https://www.mnb.hu/letoltes/commercial-real-estate-market-report-october-2019-eng.pdf

Long term: According to Board experts, tenant numbers and demand will not decline, but their preferences could change, which would necessitate renegotiation of lease contracts and replanning by developers. As home office regimes have been introduced by several companies, it is not unreasonable for tenants to request cuts on operational costs and overhead expenses due to unused office space. According to some more optimistic views, the current record low vacancy rate (5.6 per cent) in the office market would lead to a moderate direct negative impact, provided that the restrictions last no longer than 3 months. Others believe, however, that difficulties will emerge on a longer time scale of 6-12 months. Office tenants are expected to come forward to modify existing lease contracts once economic activity has slowed to a level threatening their business models, thus forcing them to cut costs in all areas.

The Budapest office market experienced a shortage of supply in recent years, with constant delays in new completions. The pre-lease rates of the ongoing office developments at the end of 2019 indicate no substantial risk of oversupply thanks to pre-lease contracts covering 56 per cent of completions due in 2020, 53 per cent due in 2021, and 94 per cent due in 2022. Based on the assumption that the occupancy rates of both the existing Budapest offices and the office space under construction remain at the end of 2019 level, the vacancy rate expected at the end of 2020 would be 8 per cent. Over the medium term, however, significant office space developments are planned (31 per cent of the stock available at the end of 2019), the construction of which has not started yet, providing an opportunity for developers to review projects in the light of the coronavirus threat.

INVESTMENT MARKET

According to real estate market experts, the coronavirus situation will have significant negative short-term impact on the investment market, partly in technical terms due to limited possibility of technical due diligence and the appraisal of properties during the pandemic. Based on the responses, investors are currently anticipating the peak of the pandemic, or else the lowest point of recession; the main concern for pension funds and real estate funds is liquidity risk due to potential withdrawals. Risk avoidance could be typical in the short term, but over the longer term real estate will remain an attractive form of investment, due to the low yield environment. At the same time, similarly to recent years, the supply of purchasable investment products will remain limited.

CONSTRUCTION MARKET

According to Board experts, the construction industry is faced with severe skilled labour shortage and this situation is further exacerbated by the coronavirus pandemic. Consequently, construction delays are likely to increase, rather than remain at current levels. Construction delays are also due to additional causes, such as:

- Disruptions or breakdown of supply chains in respect of imported raw materials and building materials (typically tiles, sanitary products and flooring materials, particularly from Italy and Spain at present).

- Foreign workers returning home and being stuck in their own countries due to travel bans.

- Reduced designer capacities due to lower efficiency of remote work in dealings with considerable sets of data and specialised software, which could be improved through digital developments.

Nevertheless, the coronavirus situation may have a dual effect. The current structure of the Hungarian construction industry is rather fragmented: there are many companies with a limited number of employees. Small businesses are likely to fail due to a lack of reserves, and thus the post-pandemic recovery will take longer in the construction industry. Declining or halted construction projects are likely to reduce the construction costs of small businesses, with a simultaneous decline in material sales and imports. This may put upward or downward pressure on specific material prices. Others believe that rising unemployment may provide additional capacities, which might help certain agents.

PROBABLE COURSE AND OUTLOOK

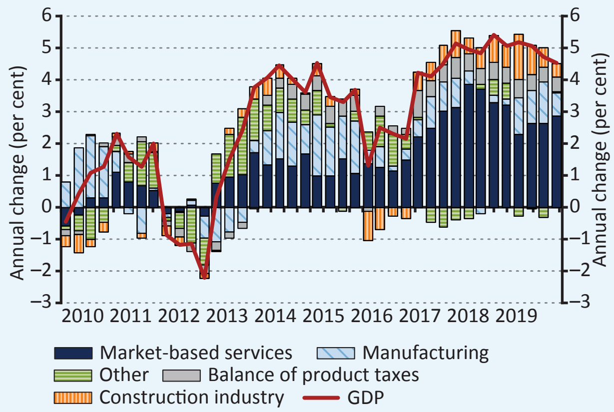
The Board's experts broadly agree about the likelihood of significant short- and medium-term slowdown and a prolonged recovery in the real estate market. Some believe that the real estate market could freeze up over the short term and that a recovery will only begin after a period of post-crisis calming. Others believe that over the mid-term the market will normalise and return to its current level in a year or two. If Hungary successfully weathers the coronavirus crisis, the security of the domestic market may even be more appreciated by investors. According to another view, the key question is the type of economic environment that will evolve after the crisis, and the number of months that companies suffer losses. The majority would survive for 3 or 4 months, but one year would be too long for most. The construction sector, as well as real estate development and investment require significant financing, potentially faced with a severe crisis if bank lending drops or breaks down completely, as was the case in 2008-2009.

According to experts, the announcements made so far reflect government and central bank intentions to avoid economic and financial crisis. Large-scale fiscal and monetary support will be needed globally for the duration of the coronavirus-induced standstill and the subsequent restarting of economy. The major and regional central banks, and those of numerous other countries introduced monetary easing in several stages in response to the crisis. The Hungarian government ordered a moratorium on repayments in line with the MNB's proposal as a precautionary measure, along with the central bank's undertaking to provide the necessary liquidity in order to maintain bank operations.

3 Macroeconomic environment

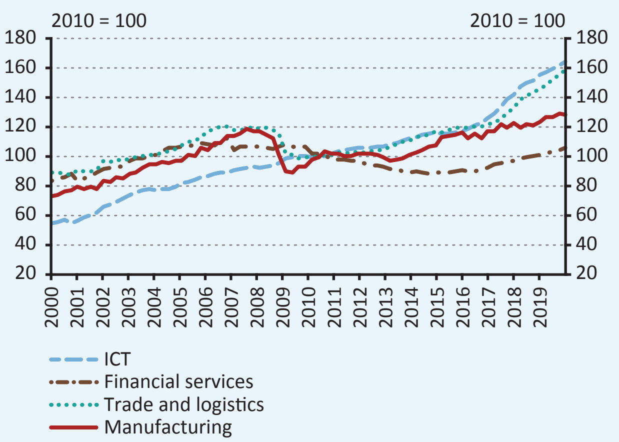
Last year's economic expansion had a positive impact on CRE demand. GDP rose by 4.9 per cent, and the employment developments in the private sector suggested favourable demand conditions supported by intense investment activity in the sectors. Moreover, demand for commercial real estate was influenced positively by a steady increase in retail turnover and continued expansion in the tourism sector. At the same time, the macroeconomic outlook is overshadowed by a great deal of uncertainty in regard to the pandemic, with potential impacts on CRE demand. The spread of the virus could cause an almost immediate, complete standstill in various sectors. Confidence indexes already show easing of capacity bottlenecks, and investment growth declined significantly in Q4 2019. The spread of the virus influences the manufacturing and service sectors with particular relevance to the CRE market in a negative way.

Chart 2
GDP growth contribution of the tertiary and manufacturing sectors



Source: HCSO.

Chart 3
Performance of sectors relevant to the CRE market



Note: The ICT sector refers to the information and communications technology sector.

Source: HCSO.

3.1 FACTORS INFLUENCING THE COMMERCIAL REAL ESTATE MARKET

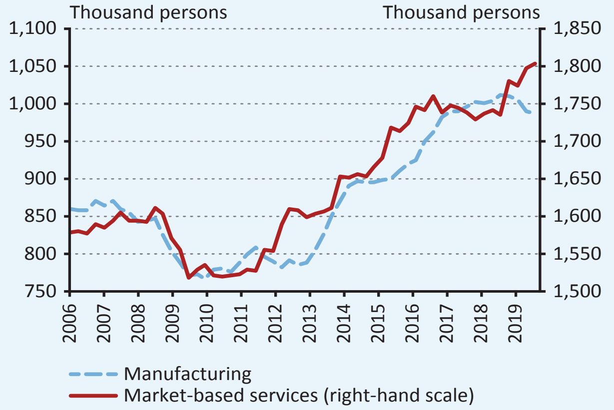
In the first half of 2019, the Hungarian economy expanded by 4.9 per cent, supported by a wide range of industries. Growth was primarily borne by the expansion of market services, but the performance of the construction and manufacturing industries also boosted GDP considerably (Chart 2).

Rising output in the services and manufacturing sectors, which are relevant to the commercial real estate market, fostered favourable demand conditions for commercial properties. Manufacturing value added increased by approximately 5 per cent in 2019, along with 8.8 per cent growth in commerce and catering and 5.3 per cent growth in the logistics sector (Chart 3). The business services sectors with office market relevance also contributed to economic expansion on a considerable scale.

Looking ahead, economic growth is expected to slow, essentially due to the global spread of the coronavirus. Although the actual data provide limited concrete information, the reduced confidence index values suggest substantially lower economic performance over the short term compared to last year. The pandemic impacts the manufacturing and service sectors with particular relevance to the CRE market to the highest degree.

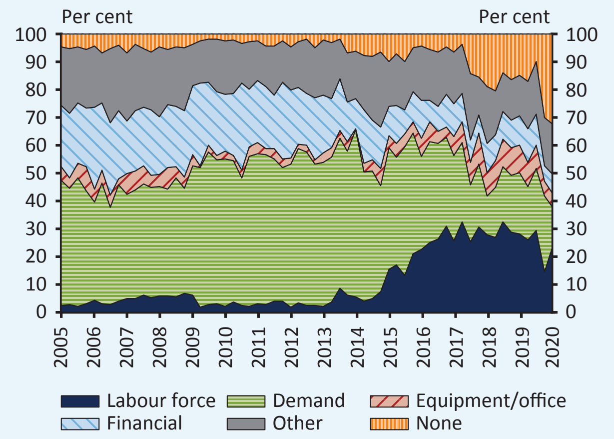
Disruptions in global supply chains put pressure on domestic industrial expansion. Various manufacturing companies, including the largest automakers, announced temporary shutdowns at Hungarian plants. At the same time, measures by the Hungarian and foreign governments aiming to slow the pandemic cause a loss of output for the market services sectors (tourism, catering, transportation, warehousing, cultural services). According to even more

Chart 4
Employment rates of sectors relevant to the CRE market



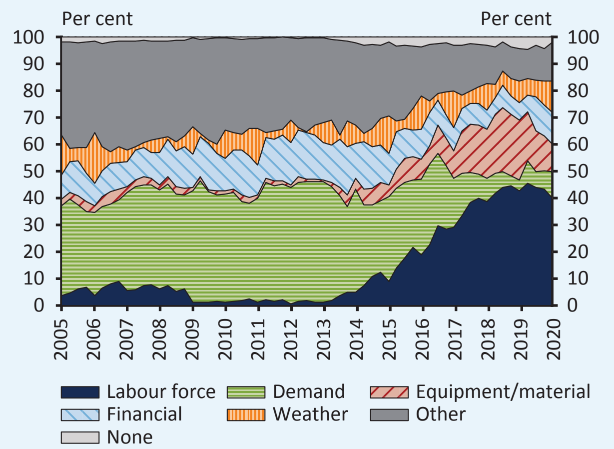
Source: HCSO.

Chart 5
Factors limiting performance in the services sector



Source: European Commission.

Chart 6
Factors limiting output in the construction industry



Source: European Commission.

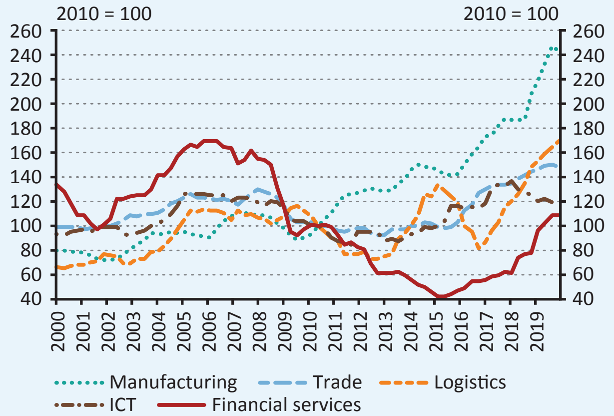
optimistic expectations, global tourism could suffer a 1-3 per cent decline this year, with significant impacts on domestic tourism and the economy as a whole.

Due to the pandemic, there is also a high level of uncertainty about private sector employment. The increase in the national employment rate in previous quarters mainly stemmed from the private sector. Private sector market services experienced significant expansion, with gradually decreasing employment in the manufacturing sector over the course of last year (Chart 4). Private sector vacancies fell again in 2019, indicating companies' weaker labour demand. **The level of employment is expected to decline further this year due to the pandemic, and this also underlined by the announced layoff plans.**

Factors limiting production had smaller impact on service sector companies in the fourth quarter. According to a regular survey conducted among service sector companies, the impact of labour and other limiting factors decreased over the last two quarters (Chart 5). Production limitations due to labour issues also decreased slightly in the construction industry, with a gradual decline in shortages of equipment and material over the course of last year (Chart 6). Looking ahead, service sector demand is likely to fall substantially as a result of the pandemic, with government measures leading to the suspension of numerous services. The pandemic may impact construction performance as well. Some companies are already facing difficulties related to material procurement. Similarly to the service sector, the crisis may increase demand-side constraints in the construction industry as well.

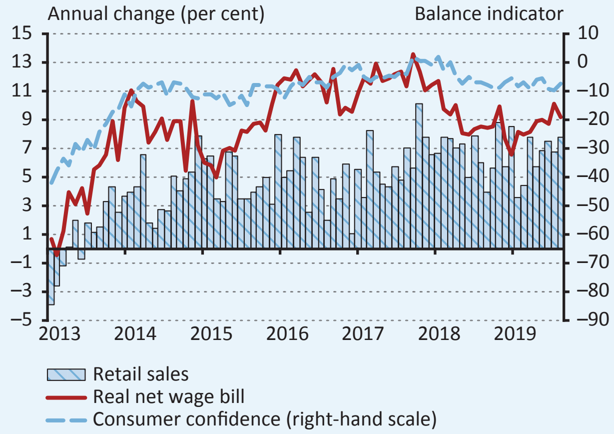
Strong investment activity by the sectors also boosted CRE demand in the private sector. Investments grew at a rate of 14.1 per cent in 2019 in year-on-year terms. Investment by enterprises that primarily produce for foreign markets increased, with robust growth seen in the manufacturing industry, which is a key sector. Investments also rose in sectors producing goods and services for the domestic market. Regarding sub-sectors relevant to the CRE market, the investment volumes of both manufacturing and logistics companies grew significantly (Chart 7). All in all, investment increased in a wide range of sectors in 2019, contributing to demand for both industrial properties and offices. **In the last quarter, however, a decline was also registered in the manufacturing and commercial sectors.** Looking ahead, the investment growth rate is expected to continue falling. **Coronavirus-related uncertainties could postpone some investments** or even jeopardise their implementation. As a result, significantly reduced investment growth can be expected in both the manufacturing and service sectors.

Chart 7
Investment activity of sectors relevant to the CRE market



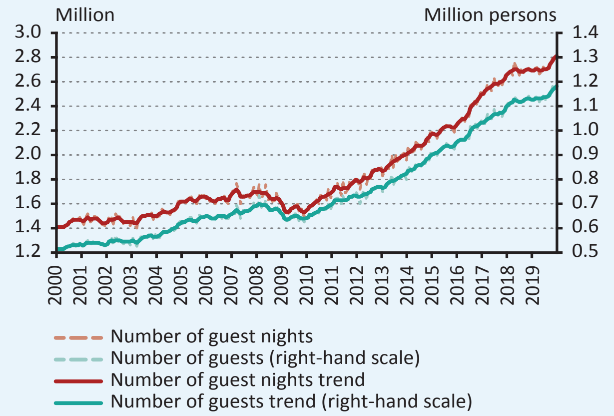
Note: 4-quarter moving average. The ICT sector refers to the information and communications technology sector.
Source: HCSO, MNB calculations.

Chart 8
Development of retail sales, incomes, and the consumer confidence index



Note: Seasonally adjusted retail sales data.
Source: European Commission, Eurostat, HCSO.

Chart 9
Monthly guest numbers and overnight stays in commercial accommodation establishments



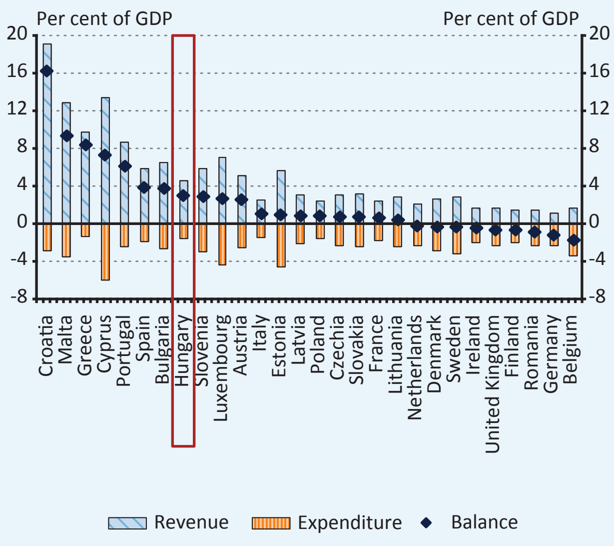
Note: Seasonally adjusted data.
Source: HCSO.

Based on our expectations, however, this year's drop in investment activity may be partially compensated in the coming years.

The stable increases in retail sales generated favourable demand conditions for the retail segment of the commercial real estate market. In 2019, Hungarian retail sales volume rose 6 per cent year-on-year, mainly on account of durables sales. The consumer confidence index fell slightly in 2019, but remained high at the end of the year, suggesting strong consumption demand (Chart 8). At the same time, the assessment of the population's financial situation and future saving ability suggests a negative trend from the final quarter, possibly discouraging the purchase of high-value durable goods as well. In Q1 2020 retail sales increased significantly due to coronavirus-induced rush to buy food supplies, but sales are expected to slow in the second half of the year. The mounting uncertainty encourages cautious behaviour by the public, resulting in an increased level of savings and reduced spending on durables.

Tourism trends encouraged favourable hotel performance, resulting in numerous hotel developments launched last year. The rise in turnover at commercial accommodation establishments in past years continued at a lower rate in 2019: over 13 million visitors spent 32 million guest nights in Hungarian establishments, representing growth rates of 2.1 and 2.2 compared to 2018, respectively (Chart 9). Foreign and domestic guests both accounted for a 50-per cent share of the turnover of commercial accommodation establishments measured in overnight stays. **Tourism is one of the most vulnerable sectors in respect of the negative impacts of the coronavirus pandemic.** Hungary is an increasingly popular destination for foreign tourists, who are responsible for approximately 60 per cent of tourism spending. The spread of Covid-19 throughout Europe resulted in foreign cancellations, followed by a substantial decline in domestic turnover shortly after the pandemic reached Hungary. Hotel room supply increased last year in line with the favourable market environment, but the spread of the virus could jeopardise the implementation of further developments.

Chart 10
Gross and net export revenues from tourism as a percentage of GDP (Q4 2018 – Q3 2019)



Note: Hungary related data estimated by the HCSO.
Source: Eurostat, HCSO.

Hungary is a country with high exposure to tourism trends. Based on 2018 figures, Hungary's tourism revenues represent 4.5 per cent of GDP, and the related expenses represent an additional 1.7 per cent of GDP (Chart 10). With tourism representing a 2.8-per cent share of the current account balance as a percentage of GDP, Hungary is the eighth most vulnerable European country in terms of tourism trends. Furthermore, the value added of tourism related sectors in Hungary represented 6.7 per cent of GDP based on 2017 figures. Taking into account spillover effects on other sectors, value added generated by tourism represents up to 11 per cent of GDP.

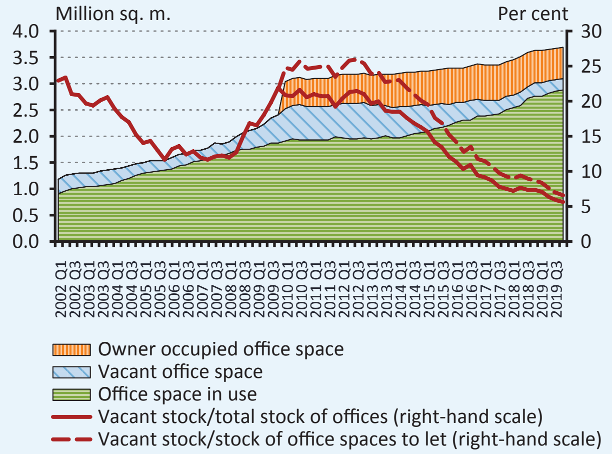
Consequently, the pandemic may have a substantial negative impact on sectors primarily responsible for CRE demand. Supply chain disruptions, factory closures and relocation of activity could result in reduced manufacturing production and postponed investments. Market-based services represented an important source of economic growth in recent years. However, tourism and freight forwarding, although major contributors to service sector growth in recent years, could experience significant decline due to the pandemic.

4 Current status and developments on the commercial real estate market

In line with the trends from past years, strong rental, investment and development activity remained typical for all segments of the domestic CRE market in 2019 again. As an ongoing trend, demand was met by sluggish supply, leading to decreasing vacancy rates and an increase in rental rates over the year. The appearance of new supply on the market fell short of the expectations for all types of real estate, and late completion remained a constant feature as in previous years. The Budapest office market was characterised by very strong development activity, along with the hotel sector at the national level, with an increasing focus on the capital observed in that sector. Vacancy ratios remained historically low in all market segments throughout the year, with the average vacancy rate of modern Budapest offices falling to 5.6 per cent and that of the industrial-logistics market in Budapest and its vicinity dropping to 1.9 per cent by the end of December 2019. Shopping centres operated at less than 4 per cent vacancy rates in December: the most visited shopping centres of the capital city had an average vacancy rate of 1 per cent, while secondary Budapest shopping centres and regional city malls had vacancy rates of 4 per cent and 3 per cent, respectively. The end-of-year data pointed to a significant increase in supply for the next 2-3 years, equivalent to 16 per cent of the current existing stock of Budapest office and nationwide hotel capacities, along with 27.5 per cent growth in guest accommodations in Budapest. However, the pandemic which hit Hungary in March 2020 could lead to standstill, further delays and increased vacancy rates in respect of ongoing projects. Further consequences of the Covid-19 situation will include reduced or postponed rental demand, as well as rental discounts and substantial revenue losses expected in all segments during the pandemic. Hotel revenues dropped to zero in a matter of weeks, and several hotel investments may be suspended or cancelled over the short term. The extent to which these sectors will change, such as potential lasting impact on consumer behaviour, employment trends and supply chains remains a question for the longer term.

Investment volume in the commercial real estate market reached EUR 1.8 billion in 2019 again, with 75 per cent of the investments attributed to Hungarian agents. The pandemic will also have a negative effect on investment activity, potentially shifting the focus towards prime real estate providing long-term stable income. The decrease in liquid instruments in Hungarian public real estate funds observed in Q3 2019 stopped by the end of the year, but the redemption volume of investment fund shares rose again in early March 2020. Despite the capital outflows in March 2020, the liquidity of the funds remained stable, further assisted by the MNB by making way for Hungarian open-ended public investment funds in the central bank's new longer term collateralised loan tenders from the beginning of April to support key markets essential for the functioning of the national economy.

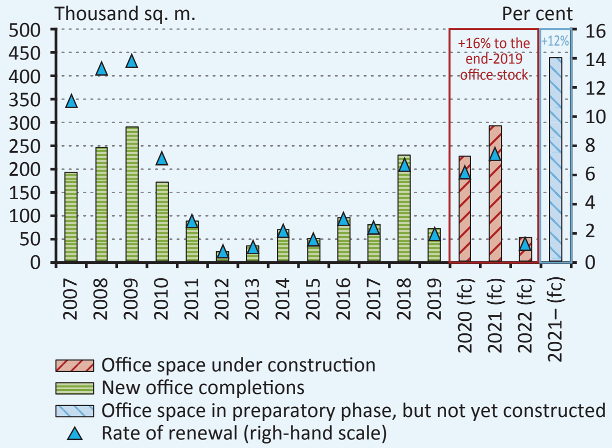
Chart 11
Floor space and vacancy rates of modern offices in Budapest



Note: Data for owner-occupied offices only available from 2010 onwards.

Source: Budapest Research Forum.

Chart 12
Development activity in the Budapest office market



Note: Some of the offices in preparatory phase, but not yet under construction, may be completed in 2021 the earliest, depending on when construction works actually start. Based on data from the end of 2019.

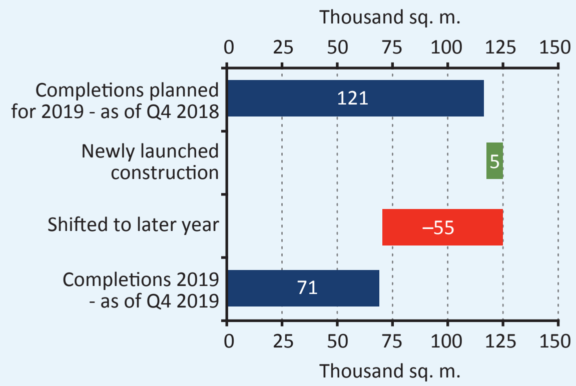
Source: Budapest Research Forum, Cushman & Wakefield.

4.1 OFFICE RENTAL MARKET

After seven years of steady decline, the vacancy rate of the Budapest office market dropped to 5.6 per cent at the end of 2019. At the end of last year, the modern Budapest office stock totalled 3.69 million square metres: of this, 3.09 million square metres (approximately 84 per cent) was space to let and 0.6 million square metres was owner occupied space (Chart 11). Similarly to the vacancy trends seen in the last four years, the end-of-year 5.6 per cent vacancy rate in Budapest represented an all-time low. The vacancy rate fell by 1.7 percentage points in 2019, and by 0.3 percentage point in Q4. The decline in the vacancy rate was due to robust rental demand, as well as the low volume of new completions. Office space to let within the total Budapest office stock had a vacancy rate of 6.7 per cent at the end of 2019.

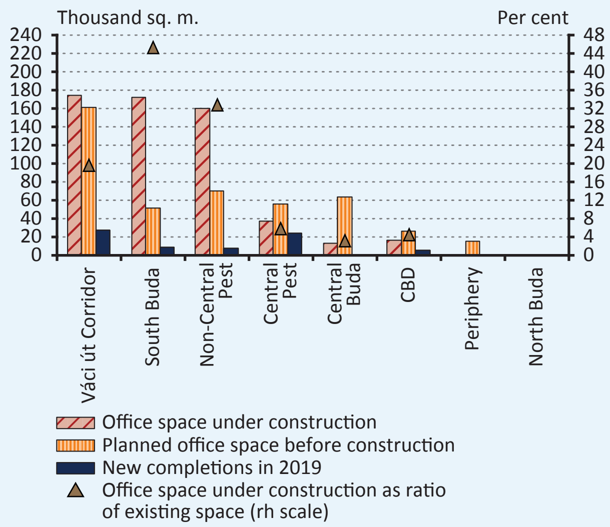
In 2019, the volume of new office completions was extremely low, but significant growth is planned going forward. In 2018, the volume of new office completions was quite high (231,000 square metres), with only 71,000 square metres of new office space (8 office blocks) completed in Budapest in 2019 (Chart 12). Looking ahead, however, more than 200,000 square metres of new office space is planned for each of the next two years: 229,000 square metres for 2020, and 294,000 square metres for 2021. The Budapest office market continues to be characterised by strong development activity. At the end of 2019, almost 576,000 square metres of office space was under construction, up 20 per cent from the end of 2018. These office buildings under construction will appear on the market as new supply in the next 2-3 years, expanding the end-2019 stock of modern offices in Budapest by 16 per cent overall. Pre-lease contracts cover 56 per cent of new completions due in 2020 and 53 per cent due in 2021. With the start of new developments and the possible late completion of current construction work, the volume of completions in 2021 and 2022 will likely increase in the next quarters. The total floor space of the developments that can be potentially launched in a short time but are currently not under construction in Budapest is 444,000 square metres, accounting for 12 per cent of the existing stock of offices at the end of 2019. Some of these projects may be completed in 2021 the earliest, but looking ahead, the stock of modern offices in Budapest could expand by 28 per cent in the next 4-5 years.

Chart 13
Change in the new completions planned for 2019 in the Budapest office market, between the end of 2018 and 2019



Note: Based on data from the end of 2019.
Source: Cushman & Wakefield.

Chart 14
Distribution of Budapest office developments; renewal rate and new completions by sub-market



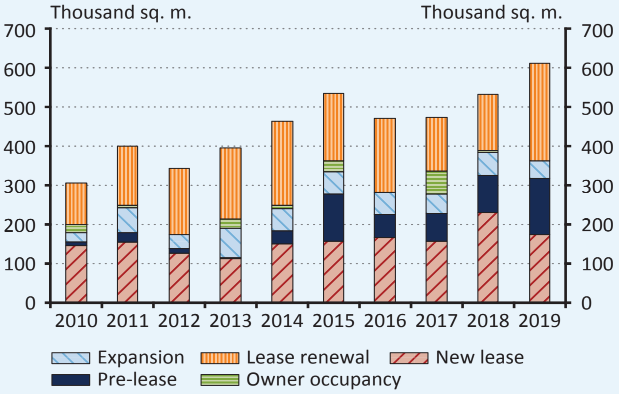
Note: Based on data from the end of 2019.
Source: Cushman & Wakefield

Almost half (46 per cent) of the developments under construction that are due to be delivered in 2019 were delayed in the past year. At the end of 2018, 121,000 square metres of office space was under construction, with expected completion in 2019 (Chart 13). At the end of 2019, however, only 71,000 square metres of new office space was delivered, i.e. 58 per cent of the previously planned volume. In the meantime, a newly launched refurbishment on a lesser scale (5,000 square metres in total) contributed to the volume of new completions in that year. Projects delayed from 2019 (55,000 square metres in total) are expected to enter the market in 2020. In the past year, 46 per cent of the completions planned for 2019 were delayed until the next year.

In 2019, the majority of new developments were launched in the Non-Central Pest, the Váci út Corridor and the South Buda sub-markets,[4] the primary locations of current office developments in Budapest. In 2019, most new completions were divided between the Váci út Corridor (27,000 square metres) and the Central Pest (24,000 square metres) sub-markets, contributing to the annual volume by 38 and 34 per cent, respectively (Chart 14). 24 per cent of all modern office space (899,000 square metres) in Budapest is concentrated on the Váci út Corridor, and the volume of new office construction (175,000 square metres) is currently the largest here. Furthermore, most of the projects in the pipeline will be completed here. Large-scale office development is also under way in Non-Central Pest (173,000 square metres) and the South Buda sub-market (161,000 square metres). The renewal rate calculated as the ratio of office space under construction and existing office stock will be exceptional in the next 2-3 years in the South Buda and the Non-Central Pest sub-markets (45 per cent and 33 per cent, respectively).

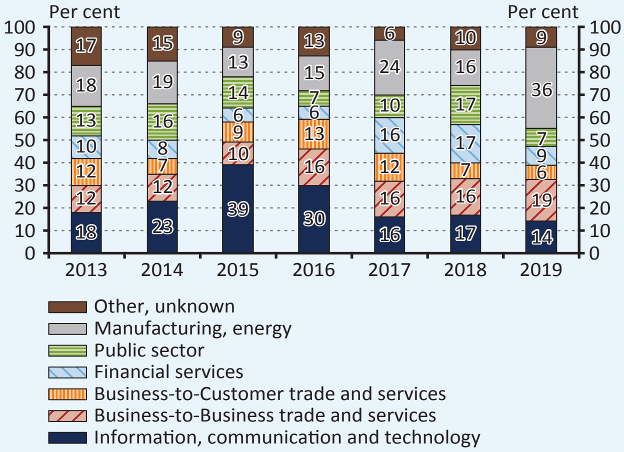
[4] For a detailed description of the Budapest office sub-markets, see Annex 1.

Chart 15
Volume and composition of rental demand in the Budapest office market



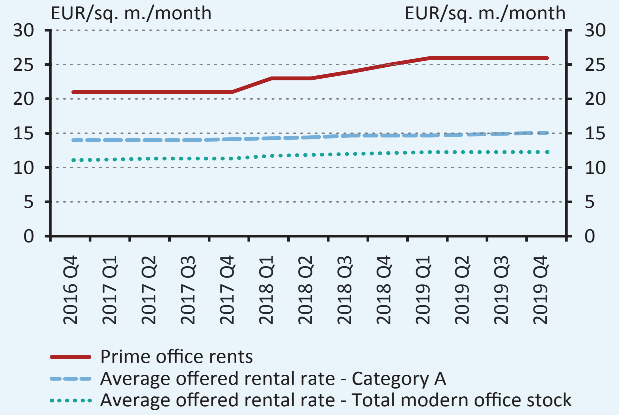
Source: Budapest Research Forum, Cushman & Wakefield.

Chart 16
Take-up composition of the Budapest modern office market by tenant activity



Source: CBRE.

Chart 17
Offered rental rates on the Budapest office market



Source: CBRE.

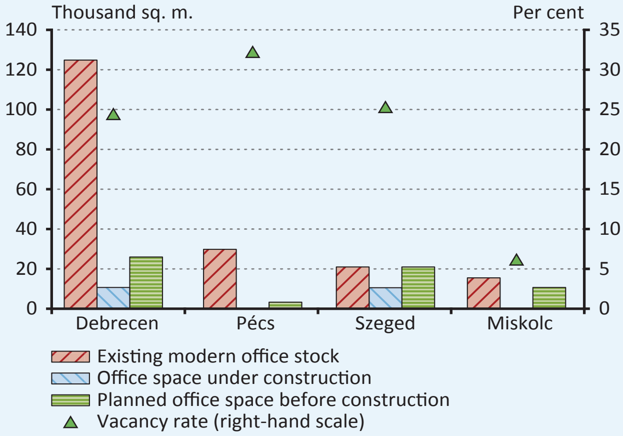
Rental demand in 2019 reached a new level in the Budapest office market. The total gross demand of the office market[5] amounted to 608,000 square metres, exceeding the demand volume of the previous year (536,000 square metres) by 13.6 per cent, which was well above the expectations (Chart 15). Demand was made up of lease renewals (40 per cent), new leases (30 per cent) and pre-lease contracts (21 per cent), with merely 9 per cent attributable to expansion. As in the case of the existing stock and new developments, most of the rental demand is focused on the Váci út Corridor, attracting 37 per cent of the total demand. In addition, the South Buda, Central Pest and Central Buda sub-markets represent some of the most popular locations, attracting 17, 13, and 10 per cent of all lease transactions by rented floor space, respectively. However, the pandemic that broke out in China at the end of 2019 and spread to Hungary in March 2020 may impact rental decisions; the experiences gathered so far are discussed under "Special topics" in Chapter 2.

The take-up share of the manufacturing sector increased spectacularly in 2019. With respect to the take-up excluding lease contract renewals, the most active sectors on the rental market in 2019 were the manufacturing and the B2B sectors, with a share of 36 and 19 per cent, respectively (Chart 16). The public services sector had a take-up share of 7 per cent, exhibiting a decline of 10 percentage points compared to 2018. It should be noted, however, that last year's renewals concerned several sizeable public contracts accounting for 21 per cent of total gross office market demand. Thus, the public sector remains an important agent in the office market.

Average offered rental rates for Budapest offices exhibited a 6.6-per cent rise year-on-year in 2019. The level of the offered rental fee of prime offices, which have the best locations and are high quality, was registered as 26 EUR/square metre/month by real estate consulting companies at end-2019 (Chart 17). This level remained unchanged since Q1 2019 and increased by 4 per cent compared to the end of 2018. Average monthly rental prices in the total modern office stock regularly monitored by the Budapest Research Forum were at 13 EUR/square metre at the end of 2019, reflecting a 6.6-per cent increase year-on-year. As for the better-quality offices (A category), the average offered rent was 15.3 EUR/square metre/month at the end of the year as a result of a 3.9-per cent, year-on-year increase.

[5] For definitions related to CRE demand, see Annex 2.

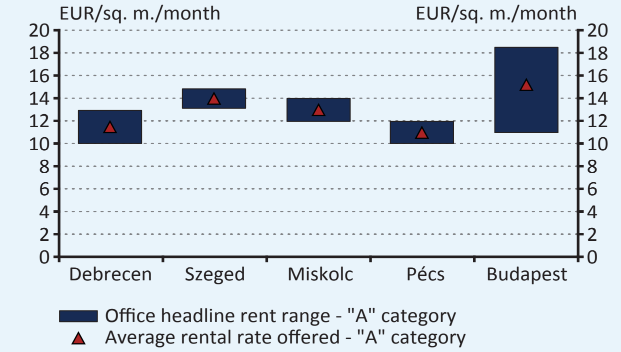
Chart 18
Modern office stock for lease outside Budapest



Note: Offices under construction are expected to be completed in 2020, while planned projects not yet under construction could be completed in 2021-2022, subject to availability of tenants and launch of construction. Based on data from the end of 2019.

Source: CBRE.

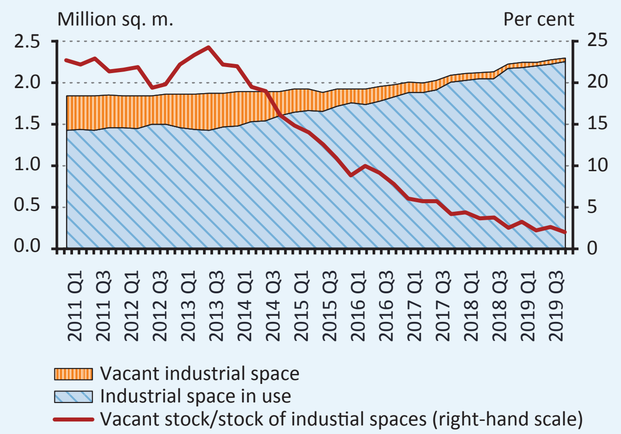
Chart 19
Office headline rents in Hungary



Note: Based on data from the end of 2019.

Source: CBRE.

Chart 20
Floor space and vacancy rates of modern industrial-logistics sites in Budapest



Source: Budapest Research Forum.

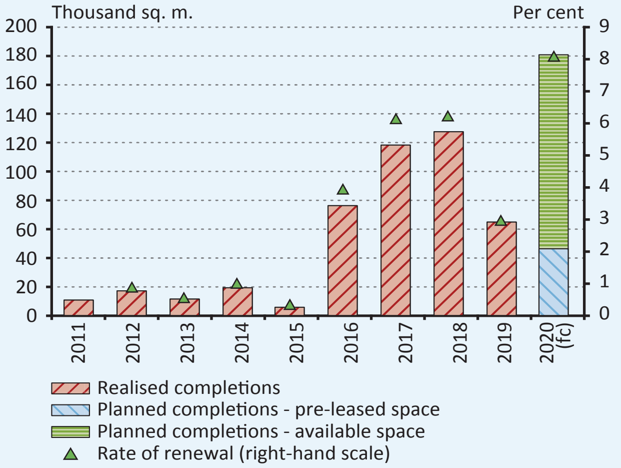
Modern rental offices outside Budapest represent a total area of approximately 185,000 square metres concentrated in four county seats. New completions took place in Szeged in 2017 and in Debrecen in 2018, but none in 2019. Of the examined locations Debrecen has the largest modern rental office stock, totalling 124,000 square metres (Chart 18). By comparison, Pécs, Szeged and Miskolc have significantly smaller stocks (between 14,000 and 27,000 square metres). The vacancy rate is highest in Pécs, with almost one-third of the offices unoccupied. The vacancy rates in Szeged, Debrecen and Miskolc are 25, 24 and 6 per cent, respectively. Looking ahead, office constructions are under way in both Debrecen and Szeged; planned projects awaiting rental demand are typical in all four locations. In recent years several companies, mostly SSCs moved into premises outside Budapest, but according to Board members, rural cities would need significantly more medium-sized or larger companies for the emergence of a more mature office market as regards development, rental and investment.

Rental rates in Szeged are the closest to the average rate available in Budapest. The offered rental rates for category “A” offices reach 10 EUR/square metre/month in every large city examined in Hungary (Chart 19). As for average rental rates, the Szeged average rate at 14 EUR/square metre/month is the closest to the capital city’s 15.3 EUR/square metre/month. The average rates available for modern category “A” offices in Miskolc, Debrecen and Pécs are 13, 11.5 and 11 EUR/square metre/month, respectively.

4.2 RENTAL MARKET FOR INDUSTRIAL-LOGISTICS PROPERTIES

The Budapest agglomeration had practically no industrial-logistics space available for lease at the end of the year. At the end of 2019, the stock of modern industrial-logistics properties in Budapest and its agglomeration monitored by the Budapest Research Forum amounted to 2.25 million square metres (Chart 20). Of this total stock, 90.5 per cent is located in industrial-logistics parks, while the remaining 9.5 per cent situated in smaller, urban logistics properties. The vacancy rate in the segment fell to 1.9 per cent by the end of 2019, marking a 1.5-percentage point decrease versus the previous year-end data and a historic low. A vacancy rate of 1.7 per cent is measured for logistics parks and 3.2 per cent for urban logistics properties, while there is only 35,000 square metres of empty space in Budapest and the agglomeration. The high concentration of owner composition remained unchanged in 2019: more than a quarter of the current stock belongs to the largest agent, and almost 50 per cent belong to the top three.

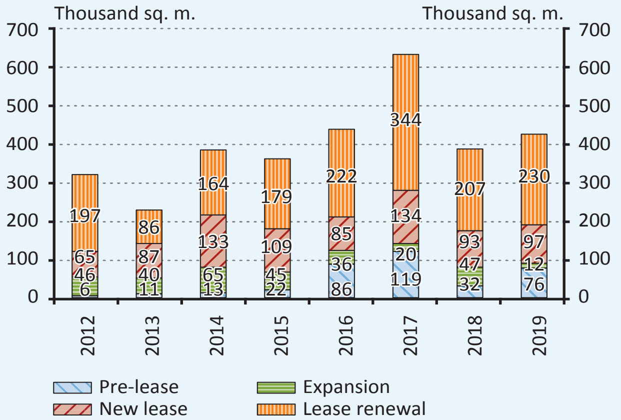
Chart 21
New completions and renewal rate in the industrial-logistics market of Budapest and its environs



Note: The 2020 forecast is based on data from the end of 2019.

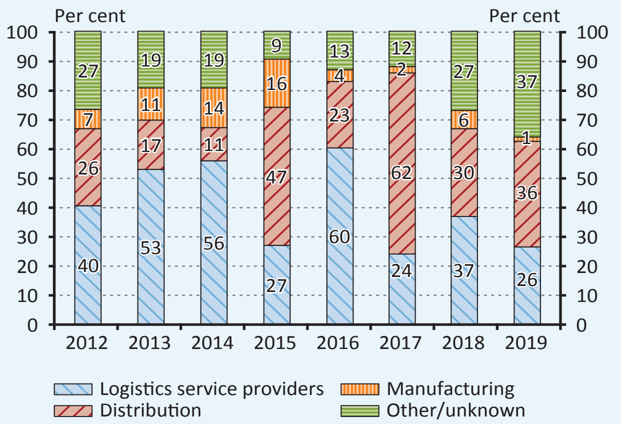
Source: Cushman & Wakefield.

Chart 22
Customer demand by contract type in the industrial-logistics rental market of Budapest and environs



Source: Budapest Research Forum, Cushman & Wakefield.

Chart 23
Take-up composition on the industrial-logistics market of Budapest and environs by tenant activity



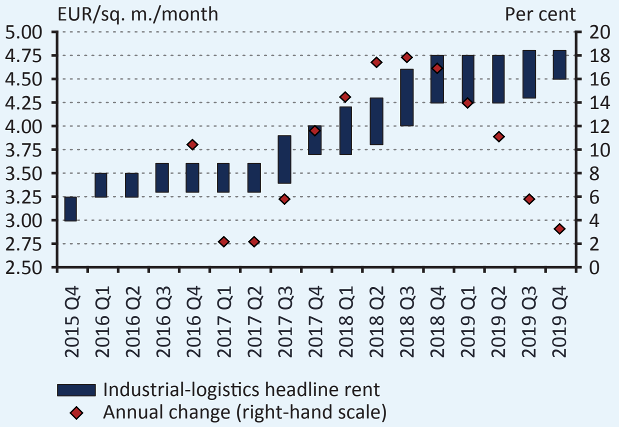
Source: CBRE.

In 2019, the volume of new industrial-logistics completions reached the lowest level since 2015. Last year, five new developments were completed in the industrial-logistics market of Budapest and the vicinity, with a total floor space of 64,000 square metres (Chart 21). The volume of new completions expected for 2019 stood at 130,000 square metres at the end of 2018, with only 50 per cent realised eventually. The low level of completion is attributable to construction delays and postponements due to inadequate take-up. 99 per cent of the industrial-logistics properties newly placed on the market were secured by pre-lease contracts at the time of completion. Looking ahead, the completion of 181,000 square metre industrial-logistics space is expected in 2020, of which 75 per cent was still available at the end of 2019. At the end of 2019, considering the take-up of the industrial-logistics market in recent years (170,000-270,000 square metres/year), the supply shortage was not expected to ease substantially over the short term. However, in 2020 the coronavirus pandemic may influence rental demand in the commercial, logistics and manufacturing sectors. The positive effect of online sales growth will provide only partial compensation.

Following the trend from past years, industrial-logistics rental activity in 2019 was also dominated by renewals. Lease contracts concluded in 2019 covered 415,000 square metre industrial-logistics space in the Budapest and agglomeration market, which is 10 per cent higher than the demand volume recorded in 2018, and 23 per cent lower than the peak experienced in 2017 (Chart 22). 55 per cent of all lease transactions were renewals, 23 per cent were new leases, 18 per cent were pre-leases, and 3 per cent represented expansion. The high renewal rate, the low volume of new completions and the minimal vacancy rate indicate little room for meeting immediate demand in 2019.

In 2019, commercial companies were responsible for more than one-third of industrial-logistics demand, but logistics service providers also continued to account for a significant share. Logistics service providers had a take-up share of 26 per cent, lower than in 2018, but similar to the experiences of the past 5 years (Chart 23). In 2019, finished product distribution (commerce) was outstanding, accounting for 37 per cent of the take-up, but the ratio of tenants with unknown or unrecorded activities is also considerable, which may distort the proportions. Manufacturing tenants remain less significant agents in the industrial-logistics real estate market, presumably due to specialised requirements resulting from activities. These companies typically operate in their own properties realised through own investments.

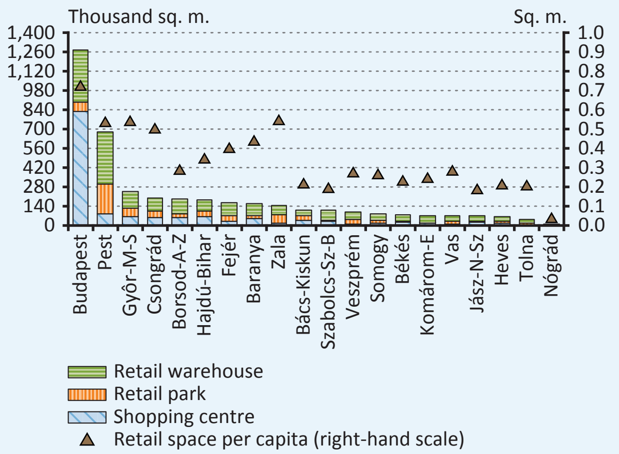
Chart 24
Typical rental rates of industrial-logistics properties in Budapest and environs



Note: Yearly change presents the yearly change in the mean of the rental rate range.

Source: CBRE.

Chart 25
County division and composition of the modern Hungarian retail real estate stock



Note: Based on data from the end of 2019.

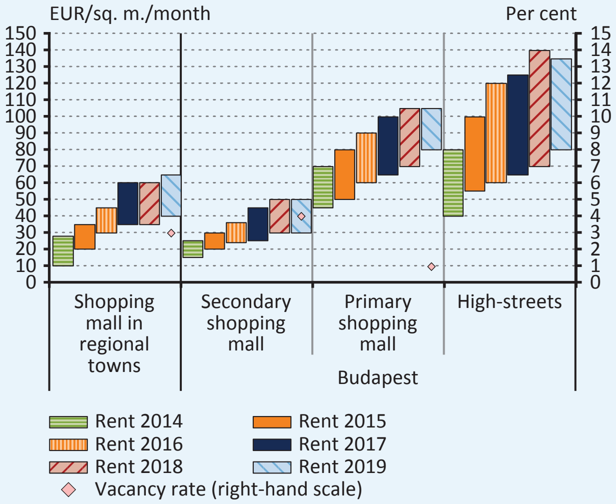
Source: CBRE.

In 2019, industrial-logistics rental rates increased more slowly in Budapest and the agglomeration, but lower discounts offered for tenants also contributed to rental rate growth. At the end of 2019, the average offered rental fees of industrial spaces ranged between 4.50 and 4.80 EUR/square metre/month (Chart 24). In the first two quarters, the typical rent range stabilised at the end-2018 level, but a steady decline in rental discounts and rent-free periods marked an increase in rental costs. The mean of the typical rent range rose 3 per cent year-on-year by the end of 2019, and in a three-year comparison, a 35-per cent increase has been seen compared to the end of 2016. Looking ahead, declining demand resulting from the pandemic could put an end to rent growth. A decline in rental rates amid the current supply constraints could result only from a permanent halt of economic activity.

4.3 RETAIL REAL ESTATE RENTAL MARKET

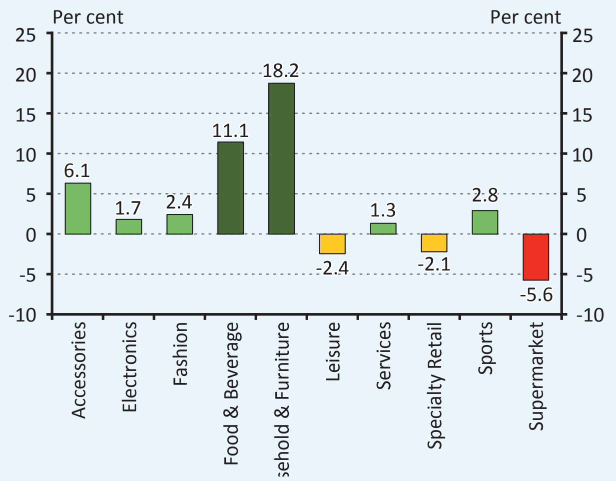
In 2019, retail property completions fell markedly short of the start-of-year expectations, and there is a great deal of uncertainty looking ahead. In Hungary, 4.1 million square metres of modern retail property is available, of which 47 per cent is retail warehouses (e.g. hypermarkets, hardware stores), 35 per cent is shopping centres and 18 per cent is retail parks. One-third (31 per cent) of the entire stock is concentrated in Budapest and 17 per cent is located in Pest county (Chart 25). Completions in 2019 were limited to two smaller retail properties with a total floor space of approximately 11,000 square metres, far less than the previously expected 29,000 square metres. Current plans include five additional retail properties with a total floor space of over 3,000 square metres, including a hypermarket, retail park and shopping centre. As regards development plans, there is uncertainty about further completions expected for 2020.

Chart 26
Retail rental rates and vacancy rates in Hungary



Note: The rental rate data refer to a retail unit of 100 square metres, and the columns show the dispersion of the highest rental rates for real estate in different retail property types.
Source: CBRE.

Chart 27
Changes in shopping centre revenue per unit area in 2019 by tenant activity



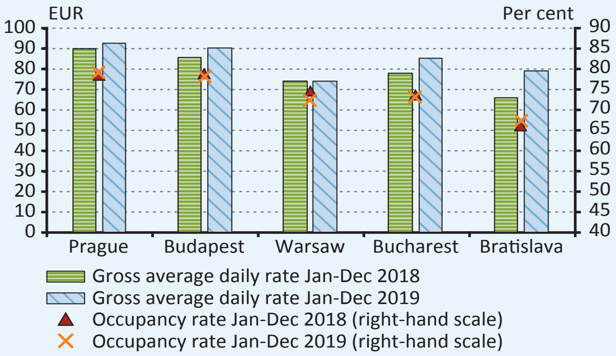
Source: CBRE.

At the end of 2019, the highest offered rental rates of the most popular shopping streets in Budapest fell slightly below the end-2018 level. At the end of 2019, the highest rental rates of 100-square metre retail premises in Budapest shopping streets ranged between EUR 80 and EUR 135/square metre/month. In the second quarter, high-end rates fell by 5 EUR/square metre/month compared to the end-2018 level and stabilised towards the second half of the year (Chart 26). The highest rental rates achievable for primary[6] and secondary[7] shopping centres in Budapest changed moderately over the year, with low-end rates for primary shopping centres rising from 70 to 80 EUR/square metre/month. The range of achievable rental rates applied to shopping centres in some regional cities moved up by 5 euros, resulting in further increasing premium compared to secondary Budapest malls. With respect to the availability of real estate, the primary shopping centres in Budapest are operating at almost full capacity, as their average vacancy rate was 1 per cent at the end of 2019. At the end of 2019, secondary shopping centres in Budapest and regional city malls had average vacancy rates of 4 and 3 per cent, respectively.

Considering the types of stores operating in shopping centres, revenue per rental unit in 2019 primarily increased in respect of catering supplies, home accessories and furniture stores. In Hungarian shopping centres, revenue per rental unit increased by an average of 2-3 per cent during the year. For home accessories and furniture stores, revenue per unit increased by 18.2 per cent year-on-year (Chart 27). Catering supplies stores also realised an outstanding 11.1-per cent increase. Sales per square metre primarily declined in food stores/supermarkets (5.6 per cent) year-on-year, but leisure stores and speciality stores also recorded 2.4 per cent and 2.1 per cent decline, respectively. Looking ahead, the pandemic which spread to Hungary in early March will have significant negative impact on all types of shopping centre stores in 2020.

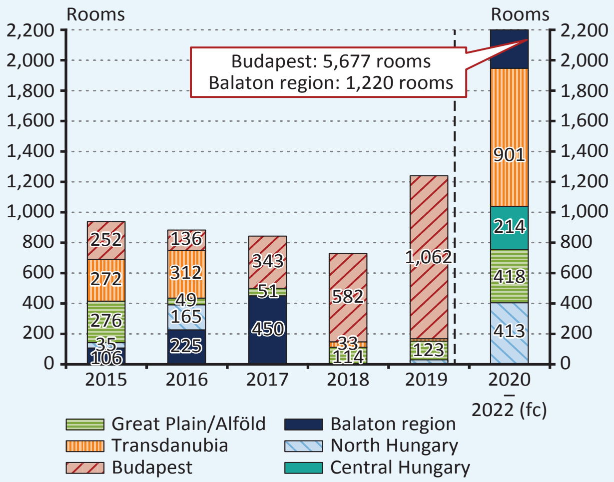
[6] Primary shopping malls: These malls are centrally located near major transportation hubs and are easily accessible.
[7] Secondary shopping malls: Compared to primary ones, these malls are further from central locations and/or are less accessible.

Chart 28
Average performance indicators of hotels in regional capitals in the 2018 and 2019



Source: CBRE, STR Global.

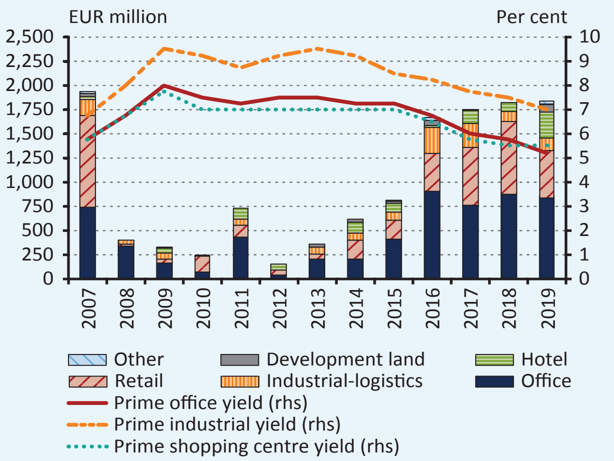
Chart 29
Number of opened and planned hotel rooms in Hungary



Note: Data for 2020-2022 includes the number of rooms in hotel projects that were in the phase of preparation or under construction at the end of 2019 and are scheduled to open by the end of 2022.

Source: Hungarian Hotel & Restaurant Association.

Chart 30
Investment volume of the Hungarian CRE market, its composition and prime yields



Source: CBRE, Cushman & Wakefield, MNB.

4.4 HOTEL MARKET

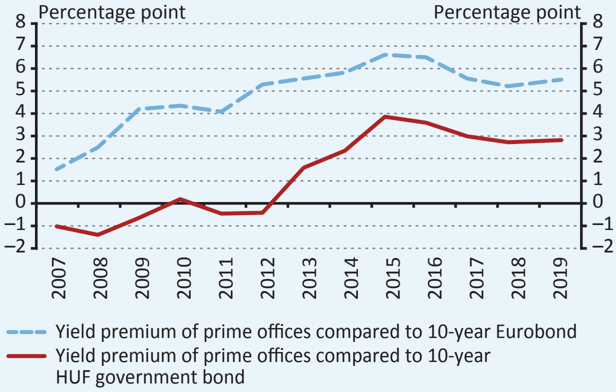
Hotel markets in regional capital cities finished a strong year in 2019, but in 2020 the pandemic forced several months of complete standstill on the industry. Of the examined regional capital cities, Budapest was second best in terms of both average occupancy (78.3 per cent) and gross average daily rate (EUR 91), after Prague (Chart 28). Gross average daily rates increased everywhere year-on-year; occupancy rates fell slightly in Budapest, Warsaw and Bucharest, and increased further in Prague and Bratislava over the past year. The tourism sector came to a standstill as the coronavirus spread across Europe and the region at the beginning of 2020, with most hotels closed in almost every capital city. In the short term, the global and European hotel markets are expected to suffer a sharp decline. The long-term impacts are difficult to estimate, but the countries affected to a lesser extent are likely to be able to restart markets sooner than anywhere else.

The favourable profitability outlook in the hotel market resulted in record high volume of completions in 2019. Last year, 1,247 hotel rooms were completed in Hungary, with over 85 per cent realised in Budapest (Chart 29). The above figures represent nine hotels in Budapest and three in the country. The hotel market shows high level of construction activity: currently, more than 8,500 hotel rooms are in the construction or preparation stage. Construction activity may slow down as a result of the pandemic; ongoing projects may be delayed, and those in the preparation stage may be postponed or even cancelled. The forecast for completions, therefore, represents the highest estimate; it could change significantly due to a prolonged pandemic and slow recovery in the tourism sector.

4.5 INVESTMENT MARKET

In the past four years, Hungary's CRE investment market experienced not only intensive investment activity, but also a high level of stability preferred by investors. Investment volume in the commercial real estate market reached EUR 1.8 billion in 2019 again, similarly to the peak recorded in 2018. Investment flows in 2019 were minimally lower (down just 0.05 per cent) in year-on-year terms (Chart 30). The average transaction value was EUR 26.4 million, on par with the 2018 average. Large-volume sales typically occurred in the second half of the year, including unique property as well as portfolio transactions. The five largest transactions accounted for 36 per cent of the annual investment volume, compared to 49 per cent in 2018. Office buildings remain the most popular investment product. 45 per cent of the investment volume was related to office, 28 per cent to retail, 13 per cent to hotel and 8 per cent

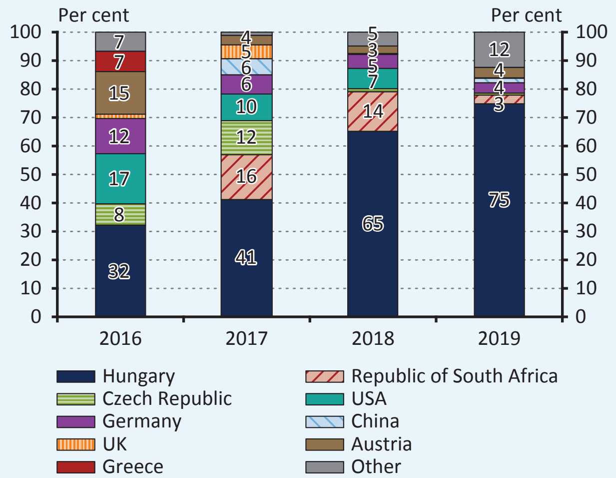
Chart 31
Yield premium of Budapest prime office investments compared to 10-year government bonds



Note: The 10-year HUF government bond yield is the yearly average of the average yield of auctions. The 10-year Eurobond yield is the yearly average of the 10-year government bonds issued by AAA-rated Eurozone countries.

Source: CBRE, Cushman & Wakefield, ECB, MNB.

Chart 32
Investment volumes on the Hungarian CRE market by the country of origin of investors



Source: CBRE, Cushman & Wakefield, MNB.

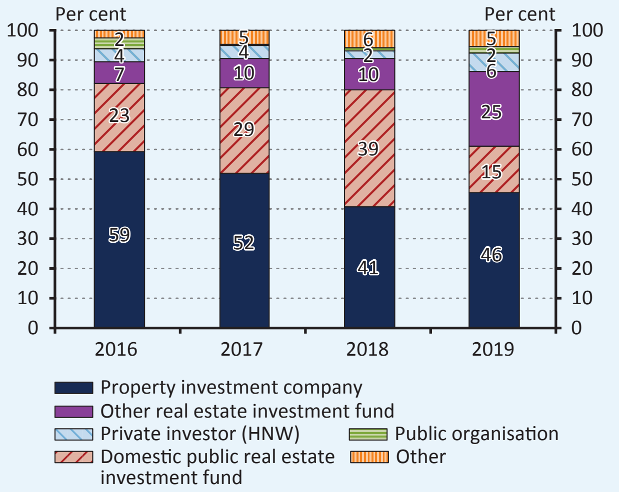
to industrial-logistics properties, with the remaining 6 per cent related to development sites and properties requiring change of function. In 2019, prime yields[8] decreased by 50 basis points in both the office and the industrial-logistics segments; as for shopping centres, prime yields stabilised at the end of 2018 level. At the end of the year, prime yields amounted to 5.25 per cent on the office market, 7.00 per cent in the industrial-logistics segment and 5.50 per cent in the retail sector. Compared to the former historically low yield levels recorded in 2007, prime yields were 50 basis points lower in the office and 25 basis points lower in the retail segment, but 25 basis points higher in the industrial-logistics segment.

Budapest office investments continue to offer a considerable yield premium compared to long-term government bonds. The premium in respect of Budapest prime office yields over 10-year government bond yields decreased steadily from 2015 and stabilised in 2018-2019 (Chart 31). Compared to 10-year Eurobond yields, the yield premium of prime offices in Budapest was 5.4 percentage points at the end of 2019, while compared to the 10-year HUF government bond reference rate, a premium of 2.8 percentage points was measured. Looking ahead, with declining yield levels in the developed markets, the yields offered by domestic prime properties could remain attractive.

Domestic investor activity increased further, accounting for 75 per cent of the investment volume in 2019. Considering the share of foreign investors, no single country reached 5 per cent. Among non-residents, the total purchases of German investors were the highest, with 4 per cent of the annual investment volume (Chart 32). Investors from Austria (3.7 per cent) and Taiwan (3.6 per cent) came next with relatively high transaction volumes. We asked the Board's members about the reasons for increased domestic investor activity in recent years; the responses are summarised in Box 1.

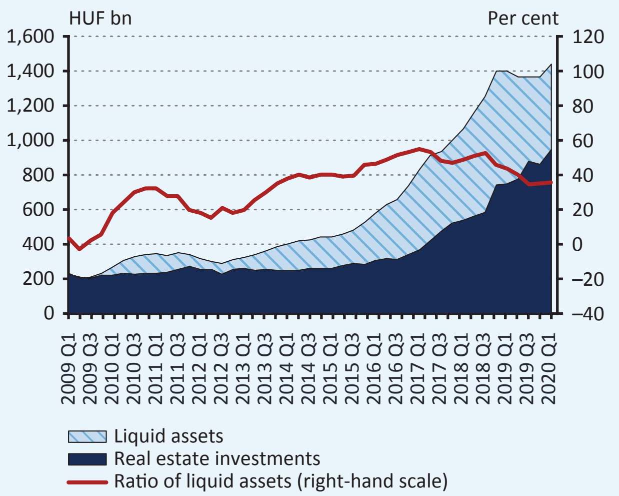
[8] Yields data refer to the (initial) yields of CRE transactions that is a gross yield and is calculated as the ratio of the real estate's annual net rental revenue and the purchase price.

Chart 33
Investment volumes on the Hungarian CRE market by investor types



Source: CBRE, Cushman & Wakefield, MNB.

Chart 34
Asset composition of public real estate funds and the ratio of liquid assets in terms of net asset value



Source: MNB.

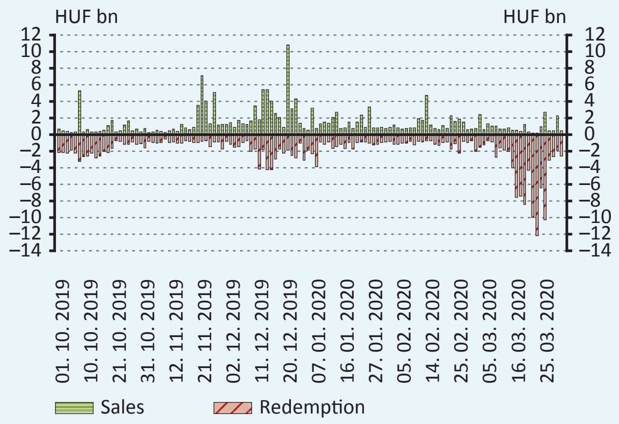
Hungarian public real estate funds played a smaller role in the investment flows in 2019. On the buyer's side, real estate investment companies accounted for 46 per cent of investment flows in 2019, with a 40-per cent share of real estate funds (Chart 33). Within the share of real estate funds, 32 percentage points came from domestic funds, and within that, 15 percentage points came from the major Hungarian public real estate funds. A large portion of the investment flows linked to Hungarian agents (75-per cent share) was attributable to the activity of real estate investment companies (33 percentage points) and smaller, private funds (17 percentage points).

4.6 PUBLIC REAL ESTATE INVESTMENT FUNDS

The stock of Hungarian public real estate funds' liquid assets stopped declining at the end of the year, and their ratio compared to net asset value is still not risky. The steady increase in the net asset value of Hungarian open-ended public real estate funds observed in recent years came to an end in Q3 2019, when a decline of 3.9 per cent was registered. The November turning point was followed by another growth phase in Q4 2019. Between end-2018 and end-2019, the net asset value of public real estate funds rose by 0.5 per cent in total. At the sector level, the ratio of Hungarian public real estate funds' liquid assets was 36 per cent at the end of the year, which is still not considered risky, but exhibited a 6-percentage point decline compared to the start-of-year level (Chart 34). The decline in real estate fund liquid assets observed until Q3 2019 was mainly due to capital outflows attributable to the MNB recommendation introduced from 15 May 2019[9] and issuance of the high-interest Hungarian Government Security Plus (MÁP+). In Q1 2020, the net asset value of public real estate funds decreased by 3.3 per cent and the stock of liquid assets decreased by 2.2 per cent compared to the end of 2019. The ratio of liquid assets within the total portfolio remained at the end-of-year level of 36 per cent.

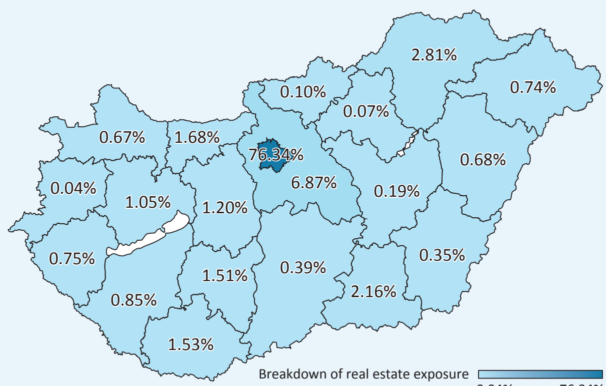
[9] Recommendation No. 5/2019 (IV.1.) of the Magyar Nemzeti Bank on issuing the shares of public, open-ended real estate funds. which stipulates a trading cap and T+180-day redemption period for new series.

Chart 35
Net capital flows in Hungarian public real estate investment funds



Source: MNB.

Chart 36
Breakdown of real estate exposure of open-end public real estate funds at the end of 2019



Source: MNB.

From April 2020 the stability of real estate fund liquidity will be supported by the MNB as well. Capital flows of public real estate funds were characterised by capital inflows in Q1 2019. From the middle of May, following the introduction of a T+180-day redemption period for new series, sales of public real estate fund shares fell to a minimum. Thereafter, while sales remained low, the redemption volume began to increase from early June. Capital flows declined accordingly from Q3, with a total net outflow of HUF 102 billion observed during the quarter. Share sales in Q4 2019 exceeded redemption volumes once again, with net capital inflow recorded in the market (Chart 35). However, with the spread of Covid-19 to Hungary in early March 2020, the redemption volume of public real estate fund shares began to increase. Despite the capital outflows in March 2020, the liquidity of the funds remained stable, further assisted by the MNB by making way for Hungarian open-ended public investment funds in the central bank's new longer term collateralised loan tenders from the beginning of April to support key markets essential for the functioning of the national economy.

A major portion of the real estate stock of Hungarian public real estate investment funds is concentrated in Pest County and Budapest. The total share of Pest County and Budapest was 79 per cent in Q1 2018, and 83 per cent in Q4 2019 (Chart 36). In addition to depreciation and appreciation issues, the change was due to the dominance of Budapest properties purchased by several funds in the past two years. The largest decline occurred in Pest County, where real estate stocks decreased by 2.3 percentage points. At the end of 2019, the number of properties with a registered value of over HUF 1 billion was the highest in Budapest, with 72 items.[10]. Pest County had 13 such properties, and the remaining counties had 33 in total. The average property value in Budapest exceeded HUF 2 billion, while in rural settlements this value remained below HUF 1 billion.

[10] As for distribution among Budapest districts, District XIII was first with 23 per cent, District VIII was second with 14 per cent, and District XII was third with 9 per cent.

Box 1
The views of Board members on the reasons for increased domestic CRE investment activity

In recent years, Hungarian investor activity increased significantly in the domestic CRE investment market. Compared to an investment share of less than 15 per cent in the previous cycle, in 2019 Hungarian agents accounted for 75 per cent of the total transaction value. We asked the Housing and Real Estate Market Advisory Board's members about the possible reasons for reduced foreign investment activity.

In past years, the Hungarian CRE market attracted both foreign and Hungarian investors with increasing capital power thanks to economic growth, a reliable and stable regulatory environment and favourable yields. According to the experts, foreign investors are still interested in the products offered by the Hungarian CRE market, but closing transactions can take longer for foreign investors than for known domestic partners, a fact also reflected in the statistics. The competitiveness and strong presence of Hungarian agents reduced foreign investors' purchasing opportunities, but in the opinion of Board experts, this impact is likely to decrease. Hungarian open-ended public funds which dominated the market in the past 3-4 years are expected to execute considerably fewer acquisitions in 2020, due to the greatly reduced competitiveness and capital inflow resulting from government measures (MÁP+ as a competitive product; T+180-day redemption period), among others. Consequently, the dominance of Hungarian investors may already decline significantly in the short run. In terms of investment flows, further expansion amid stable/intensifying demand could be curbed by reduced supply volumes, where shortages of capacity and skilled workforce prevent property developments, obviously impacting the investment market as well. As a result, the products with a potential to genuinely attract foreign investors could enter the market on a very limited scale, or not at all.

It was also observed that some (more opportunistic) foreign investors conducted purchase transactions between 2013 and 2016 and began to sell in the period 2017-2019, which made them appear less active in recent years. Based on start-of-year experiences, foreign agents with a different strategy are already entering the market, showing interest in properties.

All in all, the lower share of foreign investors in recent years is attributable to the following main factors:

- **Better market awareness among domestic investors.** Compared to foreign investors, Hungarian institutional investors had more knowledge of investment opportunities, faster response times, more contracting experience gathered in recent years and readily available funds. This situation is expected to change, with growing need for foreign investors.

- **Low level of domestic market liquidity.** Foreign investors consider the real economy and the Hungarian capital market as non-liquid, with no potential to dispose of investments if necessary, without a significant loss in value.

- **Small ticket size.** The limited volume of investment opportunities fails to attract major foreign investors, who appear to experience inadequate supply in Hungary.

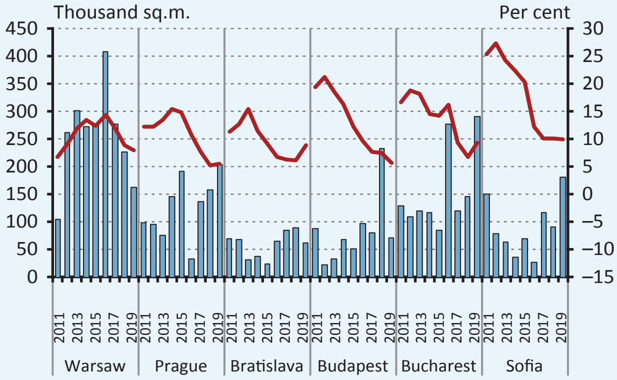
- **Leverage issue.** Compared to Western Europe, the high level of indebtedness characteristic of domestic real estate projects makes the sector less resilient to economic shock, which represents increased market risk for the foreign agents.

- The **funds for promoting Hungarian investment products and opportunities outside the country are on a much lower scale compared to regional competitors** (Czech Republic, Poland, Slovakia). The funds available for promotional purposes via fairs, conferences, professional events and media platforms are limited due to low level of government and municipal contribution.

- **Vulnerability of HUF** in respect of retail investments, risk of accelerating inflation, before emergence of the Covid-19 threat.

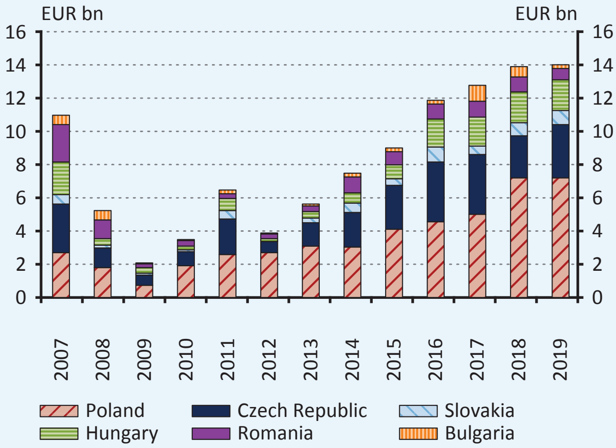
- **Cursory judgement of Hungary.** The Czech Republic is better integrated into the EU and particularly German economy; Poland is much larger, with Warsaw developing into a secondary hub for European business activity – but Budapest is still just a pretty place for many foreign investors.

Chart 37
New completions and vacancy rates in the regional capital office markets



Source: MNB collection based on Colliers, CBRE, JLL, and Cushman & Wakefield data.

Chart 38
CRE investment flows in the CEE region



Source: MNB collection based on Colliers, CBRE, JLL, and Cushman & Wakefield data.

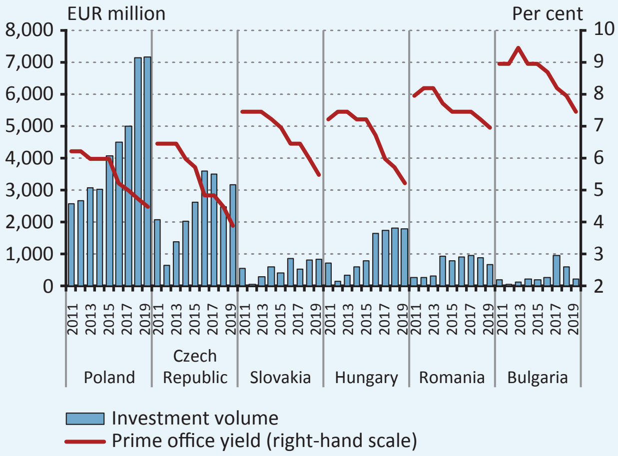
4.7 INTERNATIONAL CRE REVIEW

Office market vacancy rates increased in several capital cities of the Central and Eastern European region. In 2019, the average vacancy rates in the CEE capital cities ranged between 5-10 per cent (Chart 37). The highest rate was in Sofia, stagnating at around 10 per cent, despite large-volume new completions compared to previous years. Again, the lowest vacancy rate (5.5 per cent) at the end of the year belonged to Prague, although with a moderate growth trend observed. The latter was due to slowly decreasing demand in recent quarters resulting from labour shortage. Vacancy rates declined in Budapest and Warsaw; in 2019 both capital cities experienced strong office market demand along with a reduced volume of new supply. Bucharest and Bratislava exhibited rising rates, due to outstanding volume of new completions in the former and lower net demand (without renewals) in the latter.

In 2019, nearly three-quarters of the region's CRE investments were realised in Poland and the Czech Republic. Investment flows in the CEE commercial real estate markets reached EUR 14 billion in 2019, which represents minimal growth in year-on-year terms (Chart 38). More than half (51.6 per cent) of the total regional investment volume was realised in Poland, and nearly a quarter (22.8 per cent) in the Czech Republic.

Investment yields declined across the region in 2019 again. As for prime office market yields, the highest yields at the end of 2019 belonged to Sofia (7.5 per cent) and Bucharest (7 per cent) within the region (Chart 39). Compared to this category, prime yields were 2 percentage points lower in Budapest (5.25 per cent) and Bratislava (5.5 per cent). The next category, more than one percentage point lower,

Chart 39
Investment volume and prime yields in the region



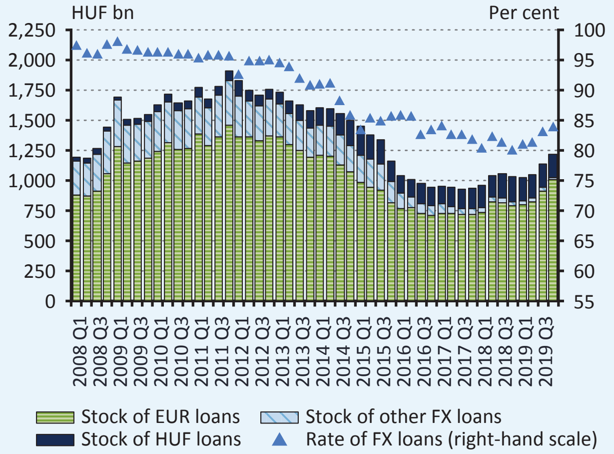
Source: MNB collection based on Colliers, CBRE, JLL, and Cushman & Wakefield data.

included Prague (3.9 per cent) and Warsaw (4.5 per cent) at the end of last year. Prime office market yields fell to a record low level in most capitals of the region. At the end of 2019, the yields observed in Budapest were 50 basis points lower than the minimum level measured in the previous cycle. Compared to Prague and Warsaw, Budapest offered a prime office market yield premium of 135 and 75 basis points, respectively, but yields were 25 basis points lower than in Bratislava, and 175 and 225 basis points lower than Bucharest and Sofia, respectively.

5 Commercial real estate financing

In 2019, credit institutions' project loan portfolios collateralised by CRE increased significantly, expanding by approximately 18.6 per cent, with a moderate increase in the share of foreign exchange loans. From 1 January 2020, the MNB tightened the Systemic Risk Buffer (SyRB) rules, taking into account problem-free foreign exchange project loan portfolios in addition to the problem portfolios during calibration. Based on the new criteria, none of the banks have formed SyRB so far. To offset the negative impacts of the pandemic, the MNB introduced SyRB relief for the banks in respect of CRE project loan stocks. In 2019, the disbursed volume of new CRE project loans was minimally lower year-on-year; at the same time, loans provided for office purchases were mostly dominant throughout the year. Looking ahead, based on the survey responses from January 2020, the banks expected a further increase in loan demand, but the European/global spread of Covid-19 in March 2020 may have a substantial negative impact in this respect. The MNB Financial Stability Report in May 2020 will survey this impact on the sector's financing, relying on updated bank questionnaires.

Chart 40
Composition of the credit institution sector's stock of CRE purchase or development project loans by currency

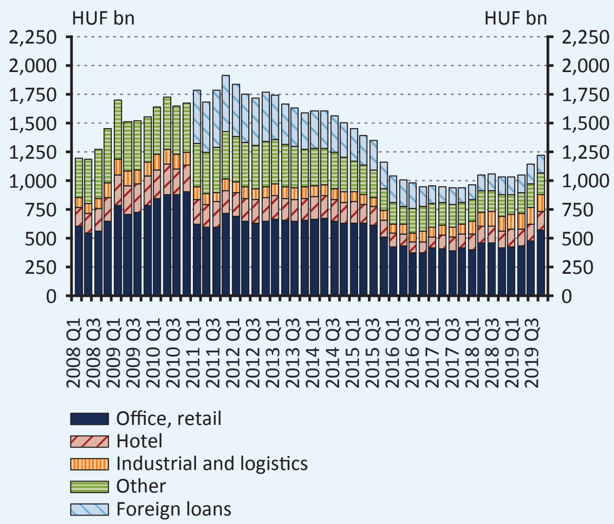


Source: MNB.

Credit institutions' stock of project loans collateralised by commercial property rose significantly in 2019. At the end of the period, credit institutions' project loan portfolios collateralised by CRE came to HUF 1,221 billion in the balance sheets, marking a significant year-on-year increase. On an annual basis, the loan portfolio rose by 18.6 per cent, primarily due to 16.4 per cent growth in the second half of the year (Chart 40). Stock expansion was entirely due to increased EUR-based lending, as the stock of HUF loans dropped by 4.9 per cent compared to 2018, with a simultaneous 24.5 per cent growth in respect of foreign exchange loans. At the same time, the stocks of foreign exchange denominated loans other than EUR almost completely disappeared from banks' balance sheets at the end of 2019.

In the CRE market, foreign currency financing does not necessarily represent a higher risk compared to HUF financing, as borrowers' revenue from leasing out the real estate is typically determined in euros. However, vulnerability stemming from foreign currency risk may arise for tenants whose revenue is generated mostly in forints, but who pay rent in euros. As a result, the MNB tightened the Systemic Risk Buffer (SyRB) rules within its macroprudential framework from 1 January 2020, taking into account problem-free foreign exchange project loan portfolios in addition to the problem stocks. Based on the new criteria, however, none of the banks have set aside SyRB so far. At the same time, in order to offset the negative impacts of the coronavirus pandemic, the MNB temporarily

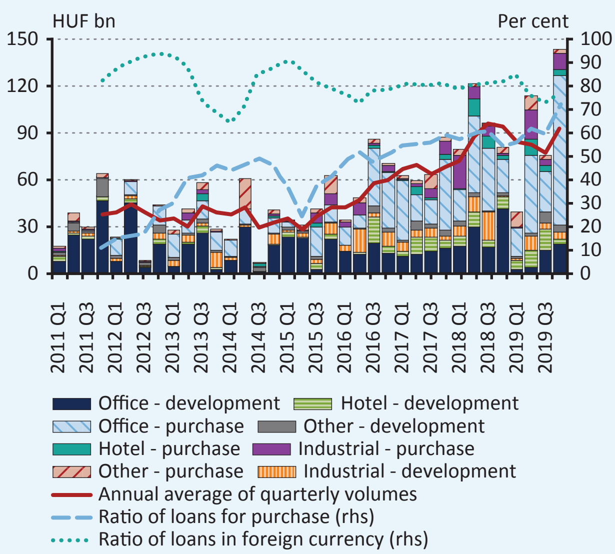
Chart 41
Composition of the project loan stock provided for CRE purchase or development by the credit institution sector by real estate type



Note: No data breakdown by real estate type is available for loans provided to foreign companies before 2011.

Source: MNB.

Chart 42
Project loans provided to domestic companies for CRE purchase or development by the credit institution sector by real estate type



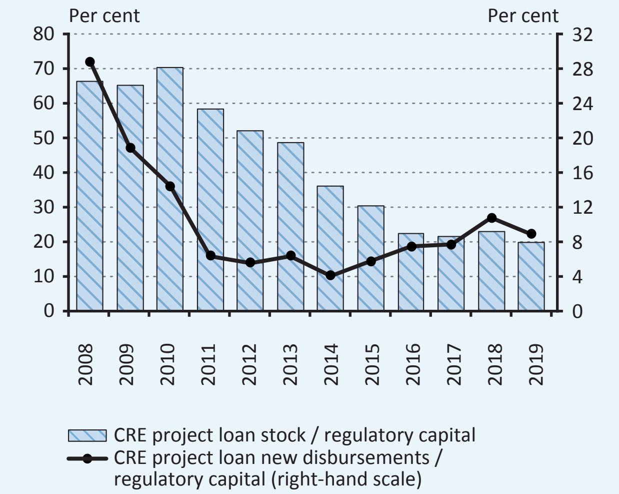
Source: MNB.

suspended the Systemic Risk Buffer (SyRB) requirement in relation to CRE project loan stocks, thus waiving rate determination due for 2020.

The majority of project loans granted for commercial real estate purchase or development are linked to the office and retail market segments. The increase in the stock of CRE-collateralised project loans observed in 2019 is attributable to various types of real estate. In recent years, the strongest growth occurred in the group of office buildings and commercial centre financing on an annual scale of 37.6 per cent, while the stock of loans extended for industrial real estate and hotel purchase or development increased by 18.5 and 9.6 per cent, respectively. However, the stock of project loans provided for other types of properties or foreign targets exhibited no significant change in 2019. The majority, 46.3 per cent of project loans for CRE purchase or development in the credit institutions' balance sheets comprised financing for the office and commercial centre segments (Chart 41).

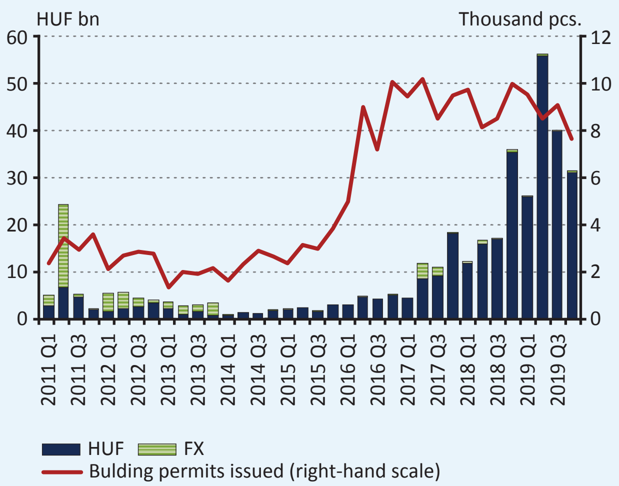
In 2019, the volume of new disbursements decreased slightly in year-on-year terms. The stock of CRE-collateralised development or purchase loans provided by the credit institutions in 2019 amounted to HUF 367.5 billion in total, 1 per cent less than in 2018. This was primarily due to a weaker first quarter, which exhibited a 51-per cent year-on-year decline in the volume of disbursements. In terms of loan issuance realised over the past year, loans for purchasing properties amounted to 72 per cent, representing a significant 53.6 per cent increase year-on-year, and a considerable rise on the figure of 45 per cent measured in 2013-2014 (Chart 42). The above reflects increased investment activity in the CRE market. Loans granted for purchases have a lower risk level compared to construction loans, as the real estate that serves as collateral is available upon loan origination. Within new disbursements, the ratio of foreign exchange loans declined moderately, reaching 76.9 per cent in the year under review and 81.5 per cent in 2018. The majority of new disbursements (61.4 per cent) targeted the office and commercial centre segments, more than 80 per cent of which comprised loans granted for real estate purchases. In 2019, the volume of new loans disbursed for hotel construction or purchase increased by 4 per cent, and the volume of new loans for industrial real estate financing dropped by 28 per cent year-on-year.

Chart 43
CRE project loan portfolios of credit institutions and disbursements as a percentage of regulatory capital



Source: MNB.

Chart 44
Volume of new project loans granted for residential park development or purchase



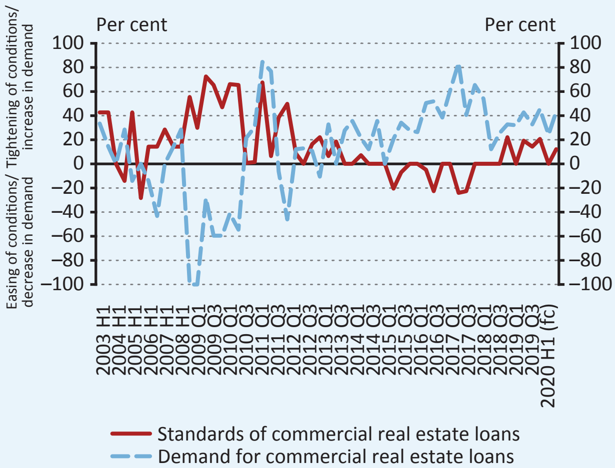
Source: HCSO, MNB.

Although CRE lending expanded significantly in recent years, the banks' resilience to shocks appears to be greatly improved. When the crisis broke out in 2008, the credit institutions' CRE project loan portfolio reached 66 per cent of regulatory capital in the sector, which had decreased to 19.7 per cent by 2019 (Chart 43). Comparing the volume of new disbursements to regulatory capital, a similar decrease can be observed. In light of the above, the increase in CRE lending appears to remain on a healthy scale, and banks' resilience to shocks has also improved markedly since the previous crisis.

Lending for residential park development increased significantly in 2019, the final year featuring the temporary preferential VAT rate for new homes. Although supply and demand for residential park development falls outside the focus of this report, which presents the CRE market, we should nevertheless take a look at the current developments in regard to project loans targeting the segment. The financing of residential park investments involves risks similar to CRE financing. In 2019, credit institutions' new portfolio for residential park development amounted to HUF 155 billion, representing a significant, 87-per cent annual increase. The volume of new loans extended for residential park development began to increase from 2017, a year after the announcement of the preferential VAT rate (Chart 44). New financing is almost entirely HUF based; moreover, the volume of corporate loans for residential park and multiple housing purchases is negligible as there is no rental housing represented in the entrepreneurial sector in Hungary. There is a high level of concentration: in 2019, five credit institutions accounted for 84 per cent of disbursements. Increased lending within the segment will require tighter monitoring in the future, due to the construction delays and coronavirus-related economic impacts.

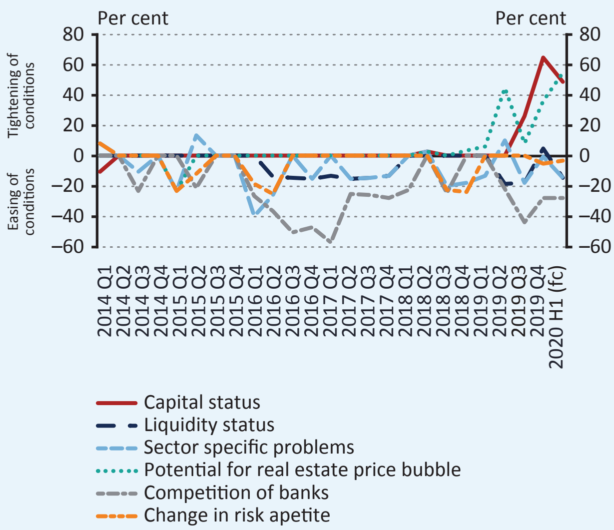
At the beginning of 2020, banks anticipated mounting demand for CRE loans, which could change significantly in the wake of the pandemic. Based on responses collected from the MNB Lending Survey in Q4 2019, in net terms 25

Chart 45
CRE loan demand and the development of loan conditions



Note: Responses of the analysed banks weighted by market share.
Source: MNB, Lending Survey.

Chart 46
Factors of changes in CRE loan conditions



Note: Responses of the analysed banks weighted by market share.
Source: MNB, Lending Survey.

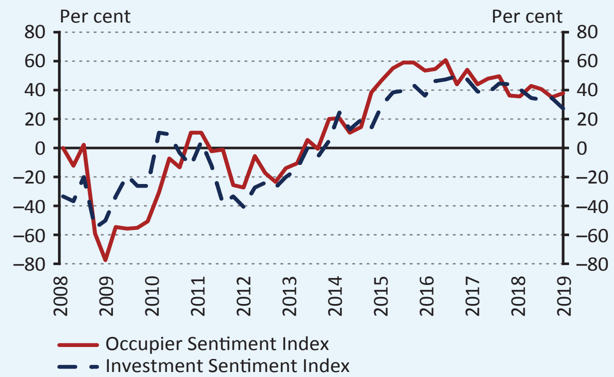
per cent of banks reported growing demand for business purpose property loans, a trend similar to former years (Chart 45). Based on the banks' responses, demand increased primarily in relation to office buildings and decreased in respect of housing projects. However, the banks reported no change in credit conditions, in contrast to the minor restrictions introduced in the previous year. Looking ahead, the survey participants expect a further increase in loan demand in the first half of 2020, but the European/global spread of Covid-19 in Q1 2020 may have a substantial negative impact in this respect. The MNB Financial Stability Report in May 2020 will survey this impact on the sector, based on updated questionnaire data.

The possibility of a potential real estate price bubble suggests tightening credit conditions. In Q4 2019, in net terms, 32 per cent of the banks responding to the MNB Lending Survey noted the possibility of a real estate price bubble influencing the tightening of credit conditions, while looking ahead, 49 per cent did so for H1 2020 (Chart 46). According to the responding institutions, the situation in the capital also contributes to the tightening of conditions in CRE lending, both at the end of 2019, and for H1 2020. Based on the responses, however, the competition of banks would justify further easing of credit conditions.

6 Results of the RICS real estate market survey

In light of the results of the Royal Institution of Chartered Surveyors (RICS) survey conducted in early February 2020, business perception appeared to deteriorate in the Hungarian investment market in Q4 2019, with no changes in the rental market. Both sub-markets experienced a decline in demand and supply, with the lowest level of activity identified in the retail segment. The expectations related to further increase in prices and rental rates could change, due to the prolonged effects of the coronavirus-related market turbulences. Hungarian experts indicated overvaluation on a growing scale, and according to the majority the market has possibly reached its peak. International comparisons show, however, that several Western European countries have a clearer perception of overvaluation.

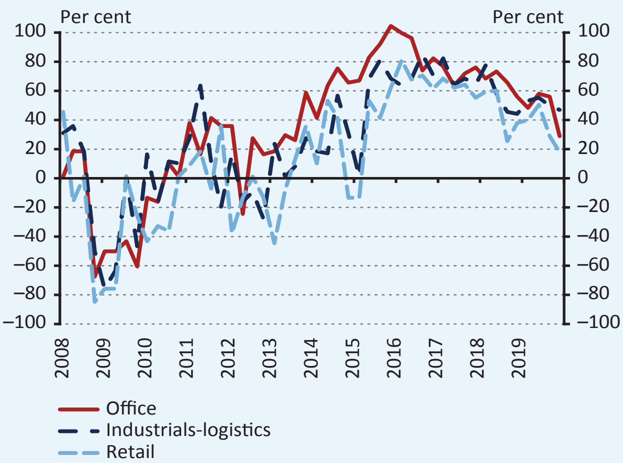
Chart 47
Development of Investment and Occupier Sentiment Index



Note: Based on responses from February 2020.

Source: RICS.

Chart 48
Development of rental demand by segment



Note: Net ratio of respondents indicating increase and decrease in demand. Based on responses from February 2020.

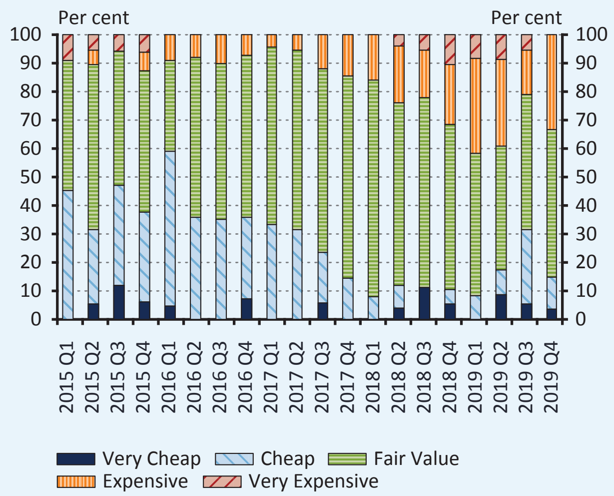
Source: RICS.

6.1 HUNGARIAN SURVEY RESULTS

Business perception deteriorated in the investment market. According to the experts participating in the Royal Institution of Chartered Surveyors (RICS) survey, overall economic trends in the investment market worsened in 2019 compared to the end of 2018 (Chart 47). This was due to reduced volumes of new development and readily available supply, on the one hand, and a sharp decline in domestic and foreign investment demand in Q2, on the other hand. Business cycle indicators started to improve from the middle of the year, although they failed to reach the earlier levels. Although these processes affected the office and industrial-logistics markets as well, a significant decline was reported particularly in the retail market segment. In terms of prices, the responding experts anticipated a 2 to 3-per cent increase in the prime segments, and a smaller increase in the non-prime categories.

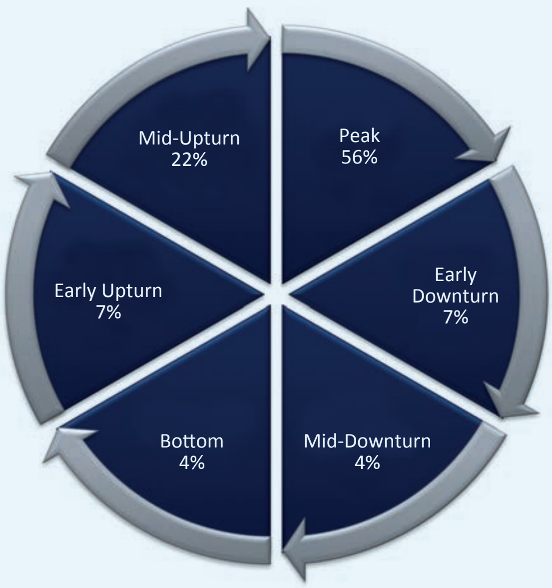
Overall, rental market activity remained high amid declining demand. CRE rental market demand and supply declined simultaneously in the second half of 2019, with no overall change in market conditions. According to the experts participating in the survey, demand fell particularly in the office and retail markets (Chart 48), while supply declined in all three segments year-on-year. Overall, rental demand dropped to the level experienced at the start of the real estate market cycle. The survey also covered annual expectations in relation to rental rates. Respondents anticipated a significant, 5-per cent increase in respect of both prime and non-prime offices in 2020. However, the experts anticipated only a 3-per cent annual increase for high-quality retail properties, and essentially no change in the non-prime sector. However, these expectations could change as a result of coronavirus-related CRE market turbulences.

Chart 49
Valuation level of the commercial real estate market



Note: Based on responses from February 2020.
Source: RICS.

Chart 50
Perceptions on current phase of property cycle



Note: Based on responses from February 2020.
Source: RICS.

According to the experts, overvaluation increased in the commercial real estate market. Half of the survey participants hold the view that Hungary's CRE market reached equilibrium price in 2019. However, last year's survey respondents increasingly signalled overvaluation, of up to 30-40 per cent for the most part of 2019 (Chart 49). Accordingly, a growing number of respondents anticipate a turning point in the market; this is supported by 56 per cent of respondents suggesting that the cycle has reached its peak (Chart 50). The next most common response (22 per cent) indicated a mature recovery phase.

6.2 INTERNATIONAL OUTLOOK

The CRE market in Western Europe is more overpriced than in Hungary. Comparing the RICS survey results relevant for the Hungarian market with the international data it can be said that, in respect of the 38 participating countries, a high level of activity is typical for both the investment and rental markets. This holds particularly true for the rental market: in terms of business cycle, though lagging behind Portugal and Brazil, it looks far better than the markets in the Czech Republic, Romania and Poland. Two-thirds of the participating countries reported a higher level of CRE market overvaluation on average than the respondents in Hungary. Of the examined countries, Germany's ratio was the highest (over 80 per cent) for indicating overvaluation. Compared to Hungary on a regional basis, the real estate cycle is more advanced in the Czech Republic, but slightly less advanced in Poland.[11]

[11] Source for the international comparison: RICS, Q4 2019: Global Commercial Property Monitor; https://www.rics.org/globalassets/rics-website/media/knowledge/research/market-surveys/q4-2019-global-commercial-property-monitor-headline-report.pdf

Annexes

ANNEX 1: SUB-MARKETS OF THE BUDAPEST OFFICE MARKET[12]

The office market of Budapest is divided into the following eight sub-markets based on the data collection of the Budapest Research Forum (Chart 51):

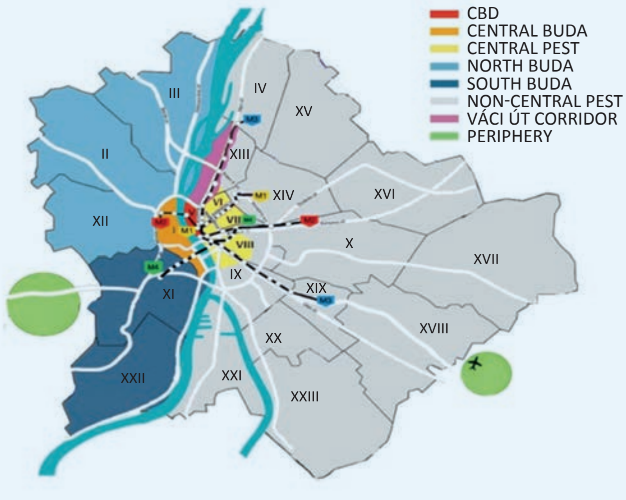
- **Central Business District – CBD:** The inner districts of Budapest, primarily the office buildings in the 5th district and on Andrássy út and the surrounding streets from Bajcsy-Zsilinszky út to the Oktogon. Most of the CBD is an architecturally protected area with a few category "A" office buildings and very limited development opportunities.

- **Central Buda:** Area bounded by the Margit körút–Krisztina körút–Böszörményi út–Jagelló út–Villányi út–Fehérvári út–Október huszonharmadika utca–Irinyi József utca. Similar to the Central Business District, development opportunities are limited.

- **Central Pest:** Area bounded by the Inner City–the Váci út Corridor–Dózsa György út–Thököly út–Fiumei út–Orczy út–Haller utca. Concentrated developments have been performed in this sub-market.

- **North Buda:** Most of districts 2, 3 and 12; investments are limited to smaller areas.

Chart 51
Sub-markets of the Budapest office market



Source: Budapest Research Forum.

- **South Buda:** Districts 11 and 22. In the development of this sub-market, available development areas are an alternative for the service centre office tenants of the Váci út Corridor, but these are less accessible than the Váci út Corridor.

- **Non-Central Pest:** Areas of Pest that are not part of the Inner City, Central Pest or the Váci út Corridor.

[12] Source: Cushman & Wakefield.

- **Váci út Corridor:** Area bounded by Szent István krt.–Váci út–Újpest Városkapu and the Danube. The Budapest office corridor where the most significant office developments were realised due to its available development areas and good accessibility (public transport: metro line M3, car: via Váci út). This is the most popular sub-market among foreign companies for the allocation of their service centres.

- **Periphery:** Agglomeration areas, mainly Budaörs, Vecsés, Biatorbágy and Törökbálint.

ANNEX 2: CONCEPTS RELATED TO DEMAND IN BUDAPEST

Members of the Budapest Research Forum (CBRE, Colliers International, Cushman & Wakefield, Eston International, JLL, Robertson) collect CRE market contracts categorised into the following transaction types:

- **New lease:** a lease agreement of an immediately available area concluded with a tenant that was not previously present in the real estate.

- **Pre-lease:** a pre-lease contract concluded for a building that has not been completed yet and is not present in the current supply. Consequently, the volume of pre-lease transactions made in the period considered does not immediately increase the leased stock, but only later when it is actually placed on the market.

- **Expansion:** a rental agreement concluded with a tenant that is already present in the real estate, but rents area additional to its existing tenement.

- **Owner occupation:** the real estate's owner utilises the area, basically removing it from the market, decreasing stocks offered for lease.

- **Lease renewal:** the extension of an existing contract with no effect on the rental stock.

The comprehensive measures of rental market activity:

- **Total demand (gross demand):** the total volume of the above five lease transaction types in the period considered.

- **Take-up:** measures the stock of actual new lease contracts; from the above, it includes the volume of new leases, pre-leases and expansions for the period considered.

- **Net absorption:** demonstrates changes in the lease stock in the period considered. The difference between net absorption and gross demand is caused by lease renewals, pre-leases and tenants which exit the market.

Miklós Ybl

(6 April 1814 – 22 January 1891)

He was one of our greatest architects, belonging to the most prominent Hungarian masters of the 19th century. He was a representative of historicism on a European level. His reputation extended over the borders of Hungary not only due to his education, but also due to his works of art. His work covered several genres of art and he left a remarkably rich legacy. His early style was characterized by romanticism with Roman elements. He, later, dedicated himself to neo-Renaissance. He was an artist of major impact completing numerous assignments and receiving recognition in his lifetime. The design of symbolic, significant and long-lasting buildings of our national culture are associated with the name of Miklós Ybl.

He laid the foundation of his career in Hungary by completing international studies and gaining experience. Between 1825 and 1831, he was the student of the Imperial and Royal Institute of Technology (the Politechnikum) in Vienna. In 1840, he enrolled in the Bavarian Academy of Arts in Munich, and he went to Italy for learning purposes in 1841, which he repeated five years later. He started his work in the office of the well-known architect of the time, Mihály Pollack in 1832, then based on his referral he transferred to Henrik Koch in Vienna in 1836.

In 1841, he opened his first independent office named Architectural Institute together with Ágoston Pollack, the son of Mihály Pollack in Dorottya street in Pest. From 1843, he received a growing number of orders from the Károlyi family, for whom he worked as a royal architect until 1861. István Károlyi assigned the reconstruction of the castle in Fót to him in 1845. The assignment also included the designing of the adjoining Roman-Catholic church, which was built in Romantic style thus making reference to the Middle Ages. The church is considered as one of the most outstanding works of Miklós Ybl. Completing castle designs was a main part of his career. Of these works, it is worth mentioning the palace of earl Lajos Battyhány in Ikervár, as well as the castle of the Károlyi family in Parádsasvár.

The most important period of his creative years coincided with one of the most significant times of European urbanization. Among many other buildings, he designed the house with a passage on Múzeum Boulevard, the apartment block located at 17 Bajcsy-Zsilinszky road, as well as the Hungarian National Hall (Tattersall) during this period. The Tattersall was destroyed in the second world war. He designed the Customs House in Pest in 1870. His other prominent works included the bath at Margaret-Island, which was demolished after the second world war, and the House of Representatives at 8 Bródy Sándor street exhibiting the characteristics of the Renaissance Revival architecture (currently the Italian Cultural Institute).

His most significant works include the Hungarian State Opera House. A restricted tender procedure for its design was announced in 1873, which Ybl won. Construction started in October 1875 with royal support, and Miklós Ybl was soon made supervisor of the project. The Builders’ rite was held on 7 December 1878, and the building was officially opened with the performance of Bánk bán on 27 September 1884, with the royal family also attending. At the same time, Miklós Ybl was working on the construction of the Castle kiosk and bazaar in Buda (1875-1882), which was built to resemble Italian, German and French hanging gardens. In 1882, he received the Cross of the Lipót-order, and was appointed a member of the House of Magnates by the king on 21 June 1885. Towards the end of his life, he continued the construction of Saint Stephen's Basilica designed by József Hild, and subsequently, he participated in the reconstruction of the Buda Castle. However, he could not finish this assignment, as he passed away on 22 January 1891.

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