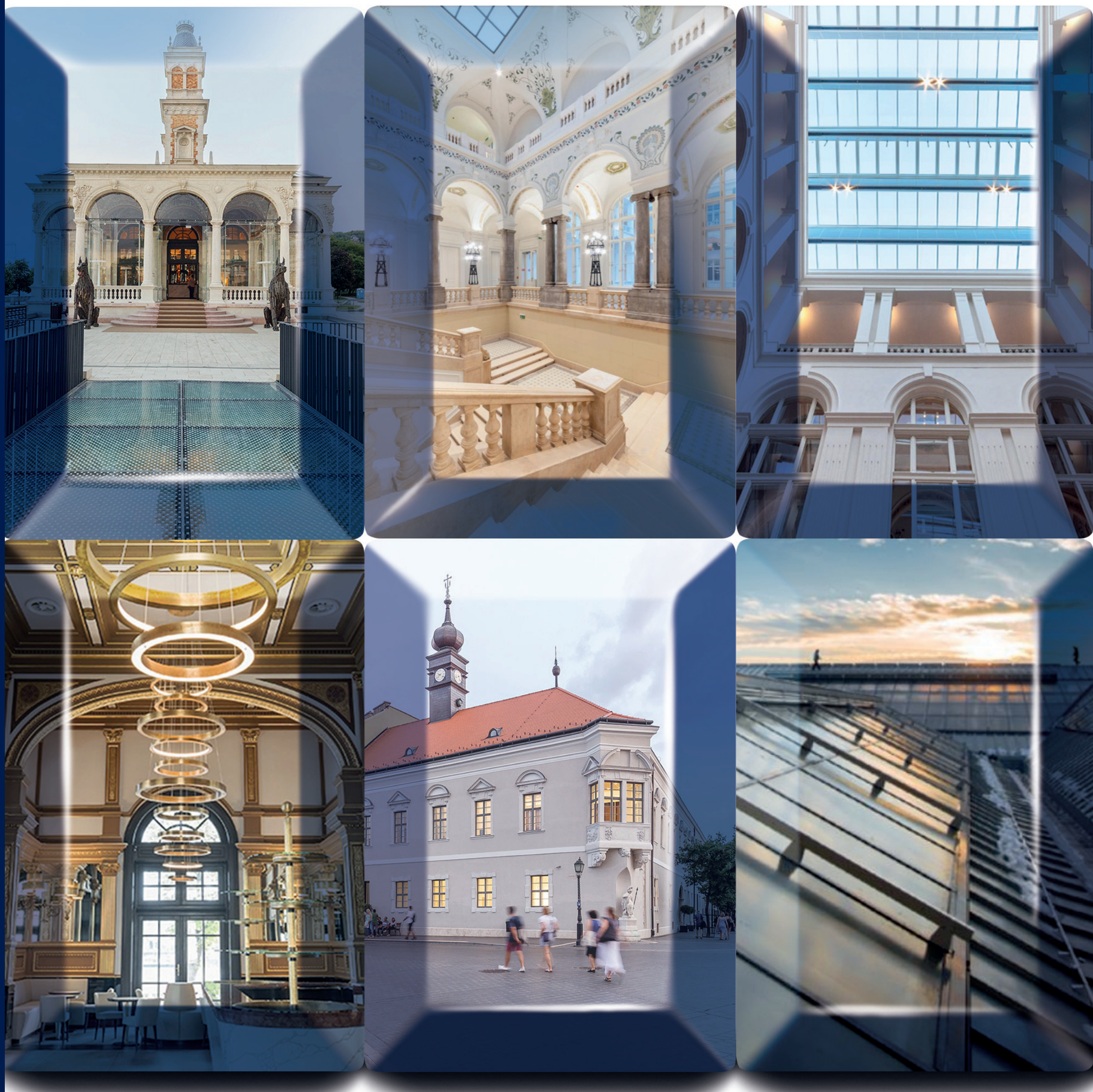
COMMERCIAL REAL ESTATE MARKET REPORT



2025

APRIL

“Your actions preserve you for the future.”

Miklós Ybl

COMMERCIAL REAL ESTATE MARKET REPORT

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The commercial real estate (CRE) market is of key importance, as it influences all economic sectors and also plays a role in people's everyday lives. In light of this, the Magyar Nemzeti Bank analyses developments on the CRE market in this biannual report.

The following two aspects are crucial to the analysis of commercial real estate:

II. 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 – on the cash flow from 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 determinant in the value of commercial real estate, similarly to financial markets. Furthermore, developments on the CRE market also affect the functioning of the financial system. This is primarily due to the fact that a large share of credit institutions' corporate loan portfolios is comprised of CRE-collateralised loans, accounting for almost 40 per cent of these portfolios in Hungary.[1]

As such a large amount of bank assets are 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 values and lending, which can lead to excessive lending and fuel borrowing for real estate speculation. In an economic crisis, banks' non-performing loans burden the 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 influences the operating environment of banks. A decrease in commercial real estate values generates losses for banks and institutional investors with large CRE stocks and contributes to financial instability.

Consequently, the CRE market can negatively affect the stability of the financial system via 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 developments 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 CRE market. The set of information used by the publication includes the following:

- *The presentation of the macroeconomic environment influencing the CRE market is based on the information in the MNB's Inflation Report.*[2] *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 current commercial real estate market developments relies primarily on data provided by real estate consulting firms and information from meetings of the Housing and Real Estate Market Advisory Board. Developments in the commercial real estate market are analysed by market segment (office market, retail market, industrial-logistics market, hotel market), but due to the capital city-focused market structure 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 mainly on balance sheet data from credit institutions, interest statistics and granular, loan agreement level loan data collected by the MNB; information on the qualitative features of lending developments collected in the Lending Survey*[3] *is also used.*

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[1] In addition to project loans secured by commercial real estate, this also includes classic corporate loans to which mortgage on commercial real estate was provided as collateral.

[2] Magyar Nemzeti Bank, Inflation Report https://www.mnb.hu/en/publications/reports/inflation-report

[3] Magyar Nemzeti Bank, Lending Survey https://www.mnb.hu/en/financial-stability/publications/lending-survey

Contents

1 Executive Summary

The decline in commercial property values came to an end in 2024 H1, and there was a positive shift in the perception of the market's cyclical position. However, lower-than-expected GDP growth failed to provide a significant boost to the recovery in rental and investment activity in the latter half of the year. GDP growth going forward is expected to be broader based and to accelerate to 1.9–2.9 per cent in 2025, while the emerging turnaround on the European markets may reduce cyclical risks, although changing tenant and investor needs remain a challenge, especially in the office market.

Looking at the macroeconomic trends that determine the performance of the commercial property segments, indicators for the hotel sector improved as tourism picked up, with an increase in both the number of foreign guest nights and domestic guest nights in 2024. Retail sales also rose, and vacancy rates in the retail segment improved, both in rural areas and in shopping centres in Budapest. In 2025, additional consumption growth may be a growth driver, supported by government measures as well as rising real wages.

The vacancy rate in the Budapest office rental market rose by 0.8 percentage point to 14.1 per cent in 2024, while the industrial-logistics market recorded a decline of 0.7 percentage point to 7.9 per cent. Rental demand in the industrial-logistics market in Budapest and its environs was positive in 2024 Q4, but with the demand levels seen in recent quarters and the amount of new floorspace slated for completion, a moderate increase in vacancy rates is expected in both the office and industrial-logistics markets. The volume of office space currently under construction includes a high proportion of owner-occupied office buildings, mainly for public sector use, which results in a favourable average pre-lease level for developments, but relocations are freeing up space currently in use, leading to rising vacancy rates. Therefore, there is a risk of oversupply even at these pre-lease levels.

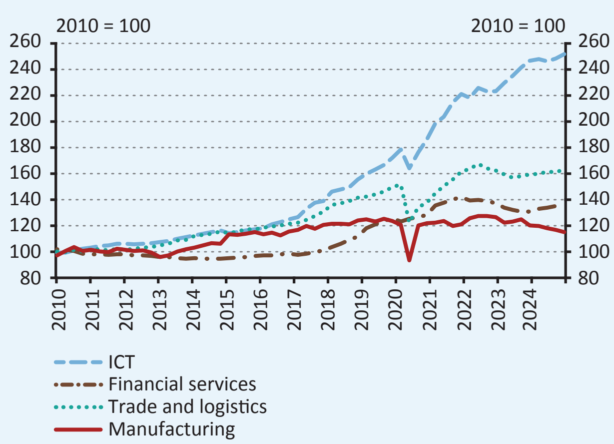
In 2024, investment turnover on the domestic CRE market amounted to around EUR 400 million, down 28 per cent on the already low level from 2023. In contrast to the domestic trend, average investment turnover in the CEE region increased by 69 per cent, while prime office yield levels (on real estate at prime locations and of the highest quality) stagnated. The low investment flows in Hungary continue to be concentrated, with domestic investors accounting for 73 per cent of such, and this may pose a risk to the perception of the Hungarian market. While capital values calculated on the basis of prime office yields and rents in the CEE region fell by half a per cent on average in 2024 and by 3.6 per cent in Budapest, 2024 H2 saw a turnaround in several countries in the region, in conjunction with yields stagnating and rents rising, leading to an increase in office valuations.

In 2024, banks disbursed 36 per cent more CRE-backed project loans compared to the low base from one year earlier, with two-thirds of these disbursements related to construction loans. Aside from hotels and office buildings, an increase in new issuance was registered for all property types. According to the MNB's Lending Survey, banks tightened their loan terms and conditions for office buildings and logistics centres in 2024 Q4, but no longer foresee any further tightening for 2025 H1. Overall, the exposure of domestic credit institutions to project loans backed by CRE is less than one-half of the post-2008 crisis peak in terms of both balance sheet total and own funds, and the non-performing loan ratio also remained low at 3.7 per cent at end-2024. Due to potentially mounting risks in the CRE market, from July 2024 the MNB's Financial Stability Board reactivated the Systemic Risk Capital Buffer (SyRB), which was suspended for an indefinite period following the outbreak of the Covid-19 pandemic, in a revised form for preventive purposes.

2 Office Market

Hungary's gross domestic product expanded at a year-on-year rate of 0.5 per cent in 2024. Mixed performance was seen in the service sectors, which are important for office market demand, with output rising by 4.4 per cent in the ICT sector and 2 per cent in the financial sector, while manufacturing output contracted by 4.3 per cent in 2024. Among these sectors, employment in manufacturing – as the largest sector in terms of workforce – fell, while employment in the other sectors remained stable or grew. In 2024, gross rental demand in the Budapest office market rose by 8 per cent year on year, but remained approximately 12 per cent lower than average demand in 2018–2019, before the Covid-19 pandemic. Looking at the composition of gross demand, the share of contract renewals continued to rise, advancing to 57 per cent in 2024, which represents an increase of 9 percentage points compared to 2023. In 2024, net market absorption was not sufficient to offset the impact on underutilisation stemming from vacant floorspace due to completions and lease expiries. The vacancy rate in the Budapest office market stood at 14.1 per cent at end-2024, reflecting an increase of 0.8 percentage point versus end-2023, but this level is not considered exceptionally high by historical standards. Based on ongoing real estate projects, developers plan to complete 232,000 square metres of new office space in 2025. Office buildings built for owner-occupation, mainly for certain ministries and public institutions, account for 63 per cent of the total volume of office space under construction in Budapest. This means that the occupancy rate of the total stock under construction is favourable (76 per cent), but with relocations currently leased space will become vacant, increasing the vacancy rate of the office stock. In Central and Eastern European capitals, office space equivalent to 2 to 10 per cent of the total space is under construction, with Budapest at the top of the scale with a figure of 10 per cent.

Chart 1
Performance of sectors relevant to the CRE market

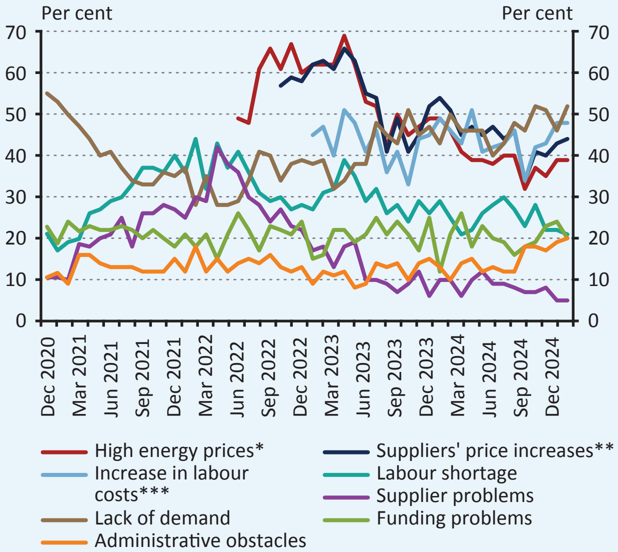


Note: Seasonally adjusted data. ICT refers to the information and communications technology sector.

Source: HCSO

Output expanded in the sectors most relevant to the CRE market in 2024 Q4, with the exception of manufacturing. Gross domestic product grew by 0.4 per cent in 2024 Q4 based on raw data and 0.5 per cent for the year as a whole. GDP increased by 1.4 per cent in the European Union and 1.2 per cent in the euro area in the fourth quarter, based on data adjusted for seasonal and calendar effects. In the fourth quarter, the performance of the Hungarian economy was mainly supported by services, while the production sectors (industry, construction and agriculture) had a negative effect. Aside from manufacturing, output in the sectors most relevant to the CRE market increased in the fourth quarter, with growth of 3.3 per cent in the financial sector, 2.7 per cent in trade and logistics and 2.1 per cent in ICT (Chart 1). Manufacturing output fell by 4.5 per cent. At end-2024, employment was up 1.6 per cent in the trade sector and 1.3 per cent in the ICT sector versus one year earlier, while it dropped by 1.8 per cent in manufacturing and 0.5 per cent in the financial sector.

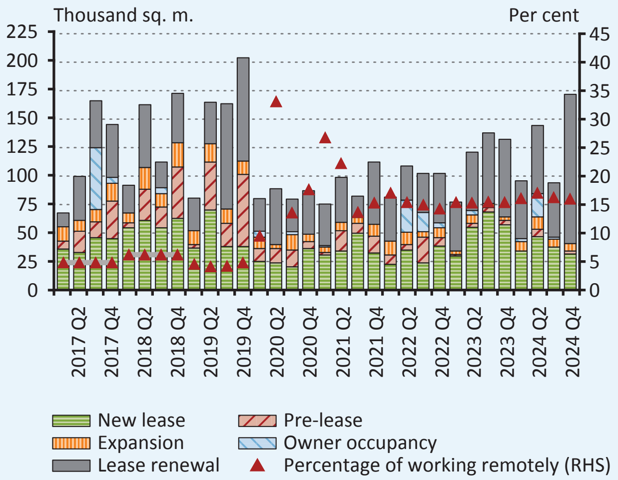
Chart 2
Factors hindering production growth



*Note: *This answer option has been included in the survey since June 2022. **This answer option has been included in the survey since October 2022. ***This answer option has been included in the survey since January 2023.*

Source: MNB corporate business sentiment survey

Chart 3
Demand in the Budapest office market and the ratio of employees in intellectual occupations working remotely



Note: The 3-month moving average of employees aged 15–74 working remotely at home as a percentage of those in intellectual occupations. For each quarter of 2017 and 2018, the annual rate of working remotely is shown; no quarterly data are available for these years.

Source: CBRE, Cushman & Wakefield, HCSO

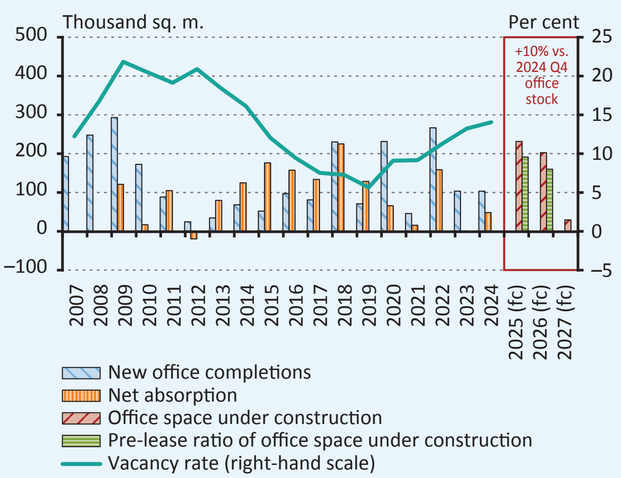
Hungarian GDP is projected to expand at a rate between 1.9 and 2.9 per cent in 2025.[4] Stronger consumption growth may drive economic growth in 2025, supported by government measures as well as rising real wages. The large, capacity-expanding investment projects launched in recent years in industry are expected to commence production in late 2025 and in 2026. While subdued European economic activity will continue to restrain demand for domestic exports in the short run, a gradual pick-up in demand will stimulate exports.

Weak demand and the prolonged effects of the period of high inflation continue to be the principal obstacles to companies' production. In the January 2025 MNB Business Sentiment Survey, companies cited the lack of customers, rising labour costs and price hikes by suppliers as the main constraints on production (Chart 2). Supplier problems (delays and product shortages), funding problems and administrative barriers were the least mentioned by companies in the survey. According to the European Commission's ESI survey, insufficient demand is also the chief obstacle in the construction sector, which is of key importance in the real estate market, while labour shortages are hampering construction output to a decreasing extent (Annex, Chart 1). The results of the survey are reflected in the year-on-year decline of 9.6 per cent in construction output in January 2025. The volume of new construction contracts signed decreased by 15.8 per cent, while the volume of contracts in the construction sector at end-January fell by 0.2 per cent compared to one year earlier. In particular, contracts for the construction of buildings were 14.7 per cent lower, while contracts for other construction were 14.2 per cent higher than in January 2024, thanks to some major infrastructure investments.

Renewals accounted for more than one-half of office space demand in 2024. In 2024, total demand for modern offices in Budapest was 8 per cent above the prior-year level. Breaking down demand, only the volume of new rental and pre-lease transactions decreased (by 29 and 24 per cent, respectively) in year-on-year terms, while the volume of other types of transactions increased (Chart 3). Annual net demand (excluding renewals) was 11 per cent lower than one year earlier. The volume of lease contracts signed in 2024 amounted to 502,000 square metres, of which 57 per cent was contract extensions, significantly higher than the 42-per cent average from the previous five years (2019–2023). New leases accounted for 30 per

[4] Magyar Nemzeti Bank, Inflation Report, March 2025. Available at: https://www.mnb.hu/en/publications/reports/inflation-report/27-03-2025-inflation-report-march-2025

Chart 4
Leasing and development activity in the Budapest office market



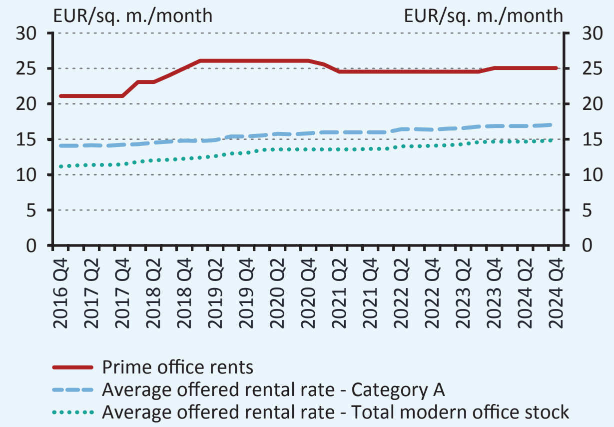
Note: Based on data from end-2024.
Source: Budapest Research Forum, Cushman & Wakefield

cent of total demand, extensions for 6 per cent, owner-occupancy for 5 per cent and pre-leases for 2 per cent. In terms of the distribution of net demand for office space by economic sector, the share of business services and trade and manufacturing sectors increased in 2024 compared to 2023. Decreases occurred mainly in the share of IT and telecommunications (Annex, Chart 12). Based on the number of white-collar employees, the share of teleworking at the national level rose from a stable level of 15 per cent in 2023 to 17 per cent in 2024 Q2 and stood at 16 per cent at the end of the year. This ratio may be substantially higher in the Budapest office market.

With moderate net market absorption, the vacancy rate in the Budapest office market increased in 2024, and no trend reversal is expected in this regard for the time being. In 2024, 104,000 square metres of new office space (representing 2.4 per cent of the stock at the end of the previous year) was completed in the Budapest office market, which is almost the same as the volume completed in 2023 (Chart 4). This means that at the end of 2024, the total stock of modern office space in Budapest amounted to 4.46 million square metres, with a vacancy rate of 14.1 per cent, representing an increase of 0.8 percentage point versus the end of 2023. The annual volume of net market absorption,[5] which shows the change in the leased stock, was 48,000 square metres, which is the lowest value recorded in the last 13 years except for only three occasions (2012, 2021 and 2023). In 2025, 232,000 square metres of office space is expected to be completed, of which 132,000 square metres will be owner-occupied, mainly for public sector use. By 2025, 61 per cent of the 100,000 square meters of space to be built for rental purposes had a pre-lease contract at the end of December 2024. This rate is higher than the average of 35 per cent for the same period in the previous five years, and may take some pressure off the rising vacancy rate.[6] At the end of December 2024, a total of 463,000 square metres of office space was under construction in Budapest, representing 10.4 per cent of the existing modern office space. Overall, the volume under development and low demand figures (e.g. net absorption) point to a further increase in the vacancy rate, which may reach 15 per cent in 2025.

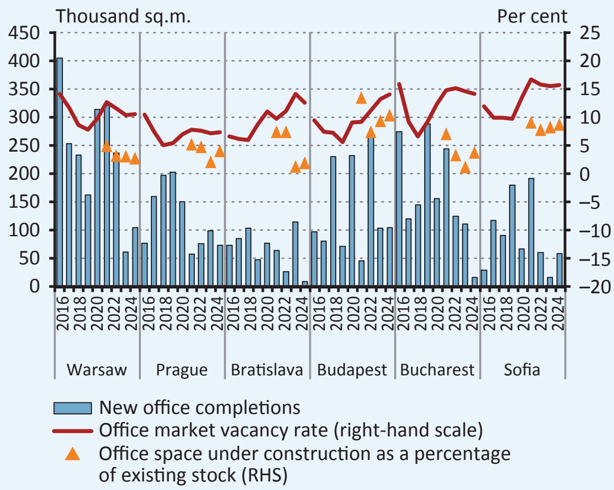
[5] For definitions related to CRE demand, see Annex 2.
[6] The impact of the pre-lease levels of completions on the vacancy rate is influenced by the underlying proportion of demand for new rentals and of moves, as the latter leave freed-up space behind, increasing the volume of vacant space and thus the vacancy rate.

Chart 5
Offered rental rates on the Budapest office market



Source: CBRE

Chart 6
Development activity and vacancy rates in regional capital office markets



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

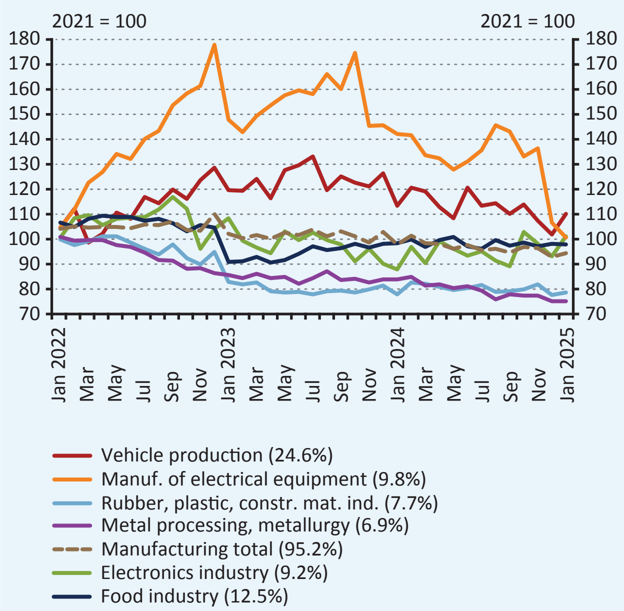
With moderate demand, offered rental rates rose at a rate below the level of euro area inflation. With regard to the total modern office space regularly monitored by the Budapest Research Forum, the average monthly rate of the rental price offered was EUR 14.85 per square metre at the end of 2024, reflecting a year-on-year increase of 1 per cent (Chart 5). For better quality offices (category 'A'), the average rental price offered also increased by 1 per cent to EUR 17 per square metre per month, compared to one year earlier. Prime rents for office buildings in the best locations and of highest quality stagnated at EUR 25 per square metre per month in 2024. The rate of growth of the average rental price offered is below the annual inflation rate (HICP) of 2.4 per cent in the euro area in December 2024.

There is no consistent trend in the vacancy rates of office markets in the capitals of the region. Within the region, the vacancy rate for office buildings increased in Budapest, Prague, Sofia and Warsaw and decreased in the other capitals in 2024 (Chart 6). Bucharest and Bratislava saw a decrease of between 0.5 and 1.6 percentage points, while Budapest, Prague, Sofia and Warsaw registered increases of between 0.2 and 0.8 percentage point. The lowest vacancy rate (7.4 per cent) was still observed in Prague and the highest rate (15.8 per cent) was seen in Sofia; at 14.1 per cent, Budapest ranked above the average of the six capitals surveyed (12.5 per cent). Of the six capitals surveyed, the ratio of office space under construction to existing stock fell only in Warsaw. While this ratio was 1.9 to 4.1 per cent in Bucharest, Bratislava, Prague and Warsaw at the end of 2024, it was higher at 8.8 and 10.4 per cent in Sofia and Budapest, respectively. In terms of completions in 2024, compared to 2023 the volume of completions fell significantly in Bucharest and Bratislava, dropped slightly in Prague, stagnated in Budapest and rose substantially in Sofia and Warsaw from a low base. The highest volume of completions (104,000 square metres) was registered in Budapest; however, Prague and Warsaw also had 66,000 and 64,000 square metres of new offices completed, respectively.

3 Industrial-Logistics Market

In 2024 H2, output fell in most of the demand-driving sectors for industrial-logistics real estate, with industrial production down by an average of 5.2 per cent and domestic road freight transport by 17.3 per cent in tonne-kilometres, compared to the same period last year. The vacancy rate of industrial-logistics space in Budapest and its environs decreased in year-on-year terms, reaching 7.9 per cent at end-2024. Demand on the industrial-logistics market was dominated by renewals and new leases in 2024, with net market absorption almost equal to the area of completions. For 2025, another 259,000 square metres of new industrial-logistics space is slated for completion in the Budapest and surrounding area market, and based on this and the net market absorption figure for 2024, a moderate increase in the vacancy rate is expected. Record levels of development, concentrated around major industrial investment sites, are expected to take place mainly in the eastern part of the country. Typical rents for industrial-logistics properties in euro rose by 6.2 per cent on an annual basis.

Chart 7
Change in the volume of production of the main manufacturing industries (2021 = 100)

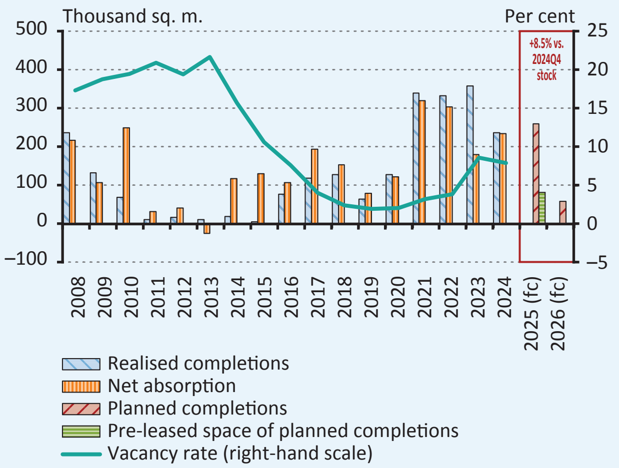


Note: Seasonally and working day effect adjusted data. Compared to the monthly average of 2021. In the legend, the percentage values in parentheses next to the manufacturing sub-sectors denote the sub-sector's share in the industrial production of 2024.
Source: HCSO

Industrial production continued to weaken in January 2025. Industrial production in Hungary fell by an average of 5.2 per cent per month on an annual basis in 2024 H2. Subsequently, volumes in January 2025 decreased by 3.9 per cent year on year, while the month-on-month decline amounted to 0.8 per cent, according to data adjusted for seasonality and working days. Of the manufacturing subsectors, the output of the automotive industry (-3.0 per cent), which represents the largest share, and the production of electrical equipment (-29.5 per cent) also fell on an annual basis in January (Chart 7). The volume of industrial export expanded by 5.7 per cent, while domestic industrial sales fell by 3.9 per cent versus the same month the previous year. At end-January, total order books were down 13.6 per cent in year-on-year terms. In 2024 Q4, with the exception of the financial sector, investment activity weakened in all of the sectors relevant to the CRE market (Annex, Chart 2). The largest year-on-year decline was recorded in logistics (-30.4 per cent), while investments in trade (-20.3 per cent), ICT (-9.1 per cent) and manufacturing (-6.4 per cent) also fell.

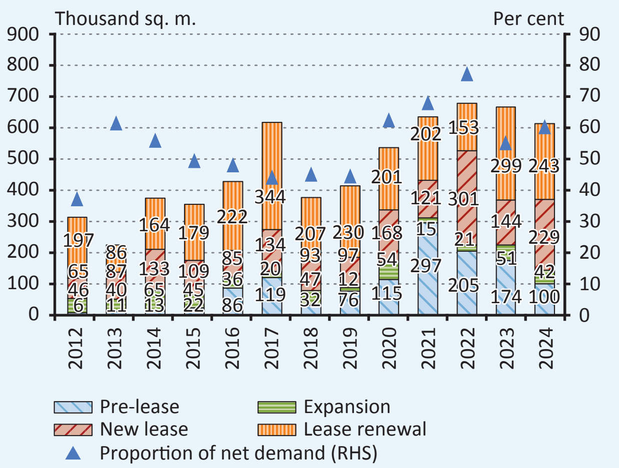
The vacancy rate in the industrial-logistics market in Budapest and its environs may rise in 2025. In 2024, 237,000 square metres of industrial-logistics space was completed in Budapest and environs, which corresponds to

Chart 8
New completions, net absorption and the vacancy rate in the industrial-logistics market of Budapest and environs



Note: Based on data from end-2024.
Source: Budapest Research Forum, Cushman & Wakefield

Chart 9
Rental demand by contract type in the industrial-logistics rental market of Budapest and environs



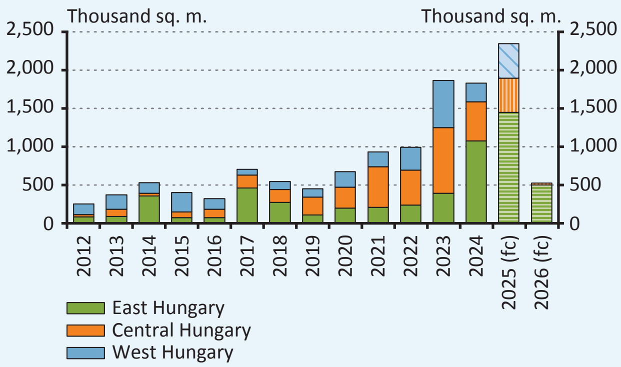
Source: Budapest Research Forum, Cushman & Wakefield

6.8 per cent of the total space at end-2023 and represents a lower volume relative to completions in the last three years (Chart 8). 96 per cent of the new floorspace placed on the market in 2024 already had tenants at the time of completion. 259,000 square metres of industrial-logistics space (6.9 per cent of total space) is expected to be completed in 2025, with 31 per cent of this pre-leased at end-December 2024. In terms of demand, the annual net absorption (234,000 square metres) exceeded the 2023 level by 30 per cent. Due to the near full occupancy rate of completions and high net absorption in the second half of the year, and within that in the fourth quarter, the vacancy rate in the Budapest industrial-logistics market fell by 0.7 percentage point during 2024 to 7.9 per cent at the end of the year. Looking ahead to 2025, the vacancy rate in the industrial-logistics segment is expected to rise moderately, due to the impact of vacant space in completions, which is expected to exceed estimated rental demand.

In 2024, demand on the industrial logistics market was dominated by renewals and new leases, with net market absorption considered high. Lease contracts were signed for 615,000 square metres of industrial-logistics space in the market of Budapest and its metropolitan area in 2024 (Chart 9). This level of gross demand was 8 per cent lower than the previous year, but is still high for the years leading up to 2021. In 2024, year-on-year net demand excluding contract renewals was almost the same as one year earlier, while the volume of contract renewals was 19 per cent lower. This meant that the share of contract renewals in gross demand was lower, at only 40 per cent as opposed to 45 per cent in 2023. New leases accounted for 37 per cent of gross demand, pre-leases for 16 per cent and extensions for 7 per cent. Companies engaged in industrial manufacturing were the most active players in the industrial-logistics rental market in 2024, accounting for 39 per cent of total rentals, but logistics services also accounted for a high share of 35 per cent (Annex, Chart 14). Rents offered at end-December 2024 were typically also in the range of EUR 5.3–5.9 per square metre per month (Annex, Chart 15). The median of the typical rent range increased by 6.2 per cent over the past year.

Concentrated around the locations of major industrial investment sites, the eastern part of Hungary is seeing the largest share of industrial-logistics property completions. At end-December 2024, the national stock of modern industrial-logistics properties amounted to about 16.4 million square metres, including real estate for rental purposes and owner occupancy. In 2024, 1.8 million square metres of new space was delivered, equivalent to 12.6 per cent of the 2023 year-end stock. Looking at completions outside Budapest and its environs (1.6 million square

Chart 10
Industrial-logistics completions and planned completions in Hungary



Note: Central Hungary includes property developments in Budapest and environs. Planned completions are based on data from end-2024.
Source: CBRE

metres), 67 per cent of the new space was constructed in Eastern Hungary, 17 per cent in Central Hungary and 15 per cent in Western Hungary (Chart 10). At the national level, the ongoing major industrial investment projects and the associated supply chain developments are generating substantial demand for industrial-logistics real estate. In 2025, a record volume of nearly 2.4 million square metres of industrial-logistics real estate is expected to be completed across the country, reflecting a 14-per cent increase compared to the stock levels at end-2024. Of the completions planned for 2025, 62 per cent are expected in Eastern Hungary, and 19 per cent each in Central Hungary (including Budapest) and Western Hungary. The high share in Eastern Hungary is mainly explained by the ongoing industrial investments in Debrecen, Kecskemét, Nyíregyháza and Szeged. The demand-stimulating effect of industrial investments in the industrial-logistics segment was also evaluated at the March 2025 meeting of the Housing and Real Estate Market Advisory Board, and the opinions expressed are summarised in Box 1.

Box 1
Meeting of the Housing and Real Estate Market Advisory Board in March 2025

At the March 2025 meeting of the Housing and Real Estate Market Advisory Board (LITT) on the commercial real estate market, experts from the fields of construction, real estate development, investment and consultancy, as well as the competent ministries and key financial partners, reviewed the outlook for the construction industry, rental market trends in the office and industrial-logistics segments, and the state of commercial real estate investments.

CONSTRUCTION, PROPERTY DEVELOPMENT

Commercial real estate market professionals reported a decline in the number and volume of construction orders. The two-year recession in Germany, Hungary's major export partner, and its negative impact on domestic investment, as well as the loss of public projects, were cited as the main reasons for the drop-off in demand. As for ongoing industrial investments, it was said that most of them are already at the technological installation stage and are not tying up building construction capacity. As a result of these trends, the number of persons employed in the construction sector is decreasing; there is no labour shortage in the sector, but there is room for growth through improvements in labour efficiency. The construction industry currently expects growth in orders to come mainly from the housing market, which typically absorbs 10–15 per cent of the sector's capacity. On the government side, the main priority is also to increase the number of housing construction projects, while the aim is also to ensure that Hungarian companies are involved in the implementation of the increased investments and the development of the European defence industry, with an eye to the waiving of the debt restrictions announced by the German state in March 2025. In the context of the 100 New Factories Programme announced by the Government in February 2025, it has been suggested that it could also encourage the establishment of 'knowledge factories', R&D activities and business service centres (SSCs) in Hungary. In terms of tourism and hotel development, the increase in the number of inbound tourists and overnight stays, which was also boosted by Romania's accession to the Schengen area, is a positive development.

RENTAL MARKETS

Market participants agreed that the vacancy rate in the office market will exceed 15 per cent in 2025, but it is still uncertain to what extent. A significant proportion of the office developments underway are owner-occupied, predominantly for public institutions, which gives the developments a favourable occupancy rate, but additional office vacancy may occur for office space in the private sector following relocations. Avoiding a larger increase in vacancy rates would require either an increase in net absorption or a rapid development of further use plans for vacant office buildings (including the examination of re-renting opportunities, renovation, energy efficiency improvements, change in function). Market players have called for public support for the relocation of high value-added business service centres to Hungary, which has been declining in recent years. Indeed, the expansion of the SSC sector could substantially boost the modest rental demand in the office market and would also have a positive impact on the construction sector. ESG considerations may also increase the rental demand for modern office space as companies relocate to modern office buildings, currently operating in poor energy-efficient buildings, but this type of interest declined compared to the previous year, according to market participants. However, the possible change in function of vacant offices is a challenging and conflicting process: converting offices to residential properties can be very costly due to energy requirements, and local authorities are not always interested in reclassifying buildings, both because of the loss of property tax revenue and the provision of services required by the residential function. It is also possible to convert office buildings into hotels, but the architectural design of offices often only allows for rooms larger than the ideal size for a hotel function to be created, which is less economical. In addition, there should be more flexibility in the regulation of the number of parking spaces required, as in many cases the constraints imposed by the conversion of an existing building do not allow for the required number of parking spaces to be provided.

For industrial real estate, market participants perceive a more positive outlook. The view expressed at the meeting was that there was a shift in technology and production chains, with production companies looking at their longer-term opportunities in these processes, and that the priority for Asian firms in this area remains the development of production capacities in the CEE region. This could underpin rental demand for industrial property for the next 5–10 years. In the logistics market, production-driven demand may remain strong in Hungary, while regarding consumption-driven demand (mainly demand for real estate related to e-commerce services) Hungary is lagging behind its regional competitors.

INVESTMENTS

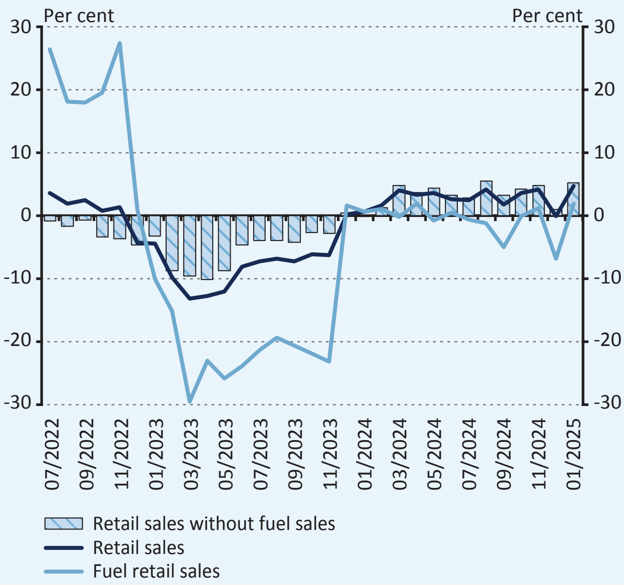
According to market experts, the very low level of investment volumes is currently the biggest challenge for the domestic commercial real estate market. In their view, as long as there are few transactions, real estate developers will not be able to launch new developments, which will also have a negative impact on the construction industry. International investors have almost completely disappeared from the domestic commercial real estate market, while in the narrower region and the Baltic States, foreign interest has returned and investment volumes have increased. However, according to some market participants investment flows in Hungary could double in 2025 compared to the very low level in 2024. Experts identified a number of obstacles to the expansion of investment demand. Investments in the office market are generally unattractive due to high vacancy rates, and building new office buildings for sale does not seem economically viable given current valuations (expected yield levels) and increased construction costs. In the case of retail properties, there is also insufficient supply due to the ‘plaza stop’ rules: the sales offer of existing shopping centres in the capital city does not match investor demand, while those in the countryside are typically in need of renovation and are unattractive due to the high capital investment requirements. The legal environment (outdated Housing Act, high VAT implications of rental activity, high construction costs due to the high quality of housing required by TÉKA (Basic Regulations for Urban Planning and Building Requirements)[7]) and the low rate of return compared to the cost of funds were presented as limiting factors by market participants in the potential expansion of commercial rental investments as a new asset class.

[7] Government Decree No 280/2024 (IX. 30.) on the basic regulations of urban planning and construction requirements.

4 Retail Market

The volume of retail sales expanded slowly in 2024, with year-on-year growth of 4.7 per cent recorded in January 2025. The expansion in sales across all types of business is supported by rising real net household income, but consumer confidence remains low. In 2024, vacancy rates decreased for all retail property types, both in Budapest and in regional cities. The rental prices offered stagnated across all property types. Online retail sales channels accounted for 9.8 per cent of retail sales excluding fuel sales in both 2023 and 2024.

Chart 11
Year-on-year change in retail sales and fuel retail sales volume

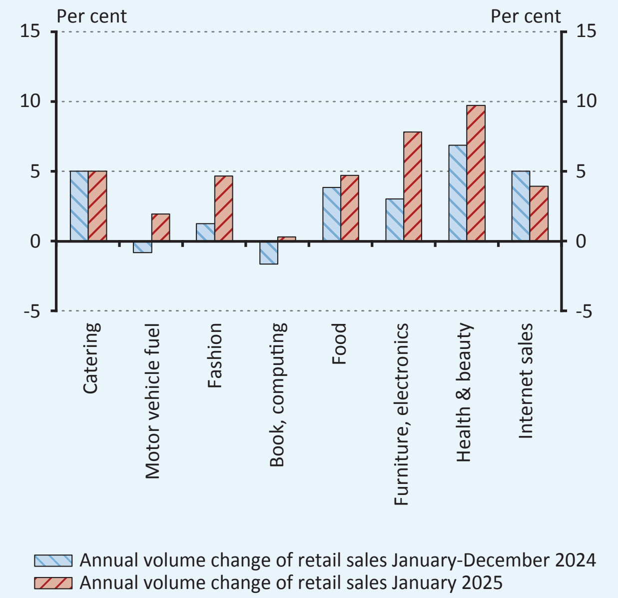


Note: Calendar-adjusted data. In 2023, fuel retail sales accounted for 16.5 per cent of total retail sales.

Source: HCSO

Retail sales expanded in year-on-year terms in 2024. After an average increase of 2.6 per cent in 2024, the volume of retail sales grew by 4.7 per cent in a year-on-year comparison in January 2025, according to calendar-adjusted data (Chart 11), in line with growth in real average earnings (Annex, Chart 5). The volume of retail trade excluding fuel sales rose by 5.2 per cent in January 2025 on a calendar-adjusted basis. In January, there were no business types where sales declined (Chart 12). The sales volume of catering establishments increased by 5.0 per cent year-on-year in both 2024 and January 2025. At current prices, the share of online channels in retail sales excluding fuel rose from 10.1 per cent in 2020 to 11.4 per cent in 2021, and then contracted to 10.3 per cent in 2022 and 9.8 per cent in 2023, and remained at the latter level in 2024.

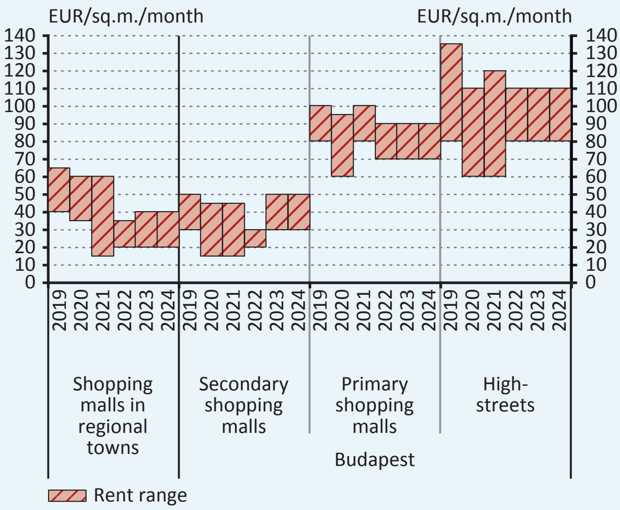
Chart 12
Development of turnover of retail store types and restaurants



Note: The change in the volume of retail store sales based on calendar adjusted volume indexes of retail sales, in the case of catering based on unadjusted volume index.

Source: HCSO

Chart 13
Retail rental rates in Hungary



Note: The rental rate data refer to a retail unit of 100-150 square metres, and the columns show the range of the highest rental rates for real estate in different retail property types.

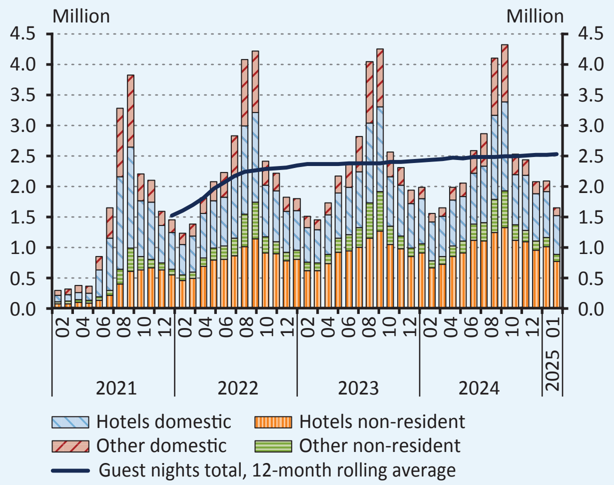
Source: CBRE

Retail property rents stagnated in 2024 for all retail property types. In 2024 H1, the median of the typical ranges of rental prices asked for retail premises of 100–150 square metres stagnated for all property types (Chart 13). This means that the typical rent asked in prime shopping centres in Budapest remains between EUR 70 and 90 per square metre per month, while rents for premises in secondary shopping centres in Budapest range between EUR 30 and 50 per square metre per month. During the year, the vacancy rate of retail properties typically declined, with available data suggesting that the average vacancy rate for prime shopping centres in Budapest was around 1–2 per cent at end-2024, while for secondary shopping centres in Budapest it was more in the region of 10 per cent. According to CBRE data, eight retail chains entered the Hungarian retail rental market in 2024, most of them selling fashion products. No brands were registered leaving the market during the year. In net terms, the difference between new entrants and retail chains exiting the market was last higher in 2019 than in 2024, with three and two exits per year in 2022 and 2023 respectively, in addition to eight and six new entrants.

5 Hotel Market

At the national level, in 2024 the number of hotel guest nights increased by 8 per cent compared to 2023, with a significant year-on-year rise in domestic guest nights (6 per cent) and a 10-per cent increase in overnight stays by foreign guests. In line with the higher number of guest nights, hotel revenues rose by 17 per cent versus 2023. In the hotel sector nationally, around 3,600 new hotel rooms were under construction at the end of 2024, but the timing of completions remains uncertain. Similar to Budapest, hotel occupancy rates continued to improve in 2024 in the CEE region's capitals, with now only a 3.4-percentage point gap compared to the pre-pandemic level in 2019. Warsaw's hotels are already 2 percentage points above the 2019 occupancy level, while Budapest still lags 8 percentage points behind.

Chart 14
Monthly guest nights in commercial accommodation establishments

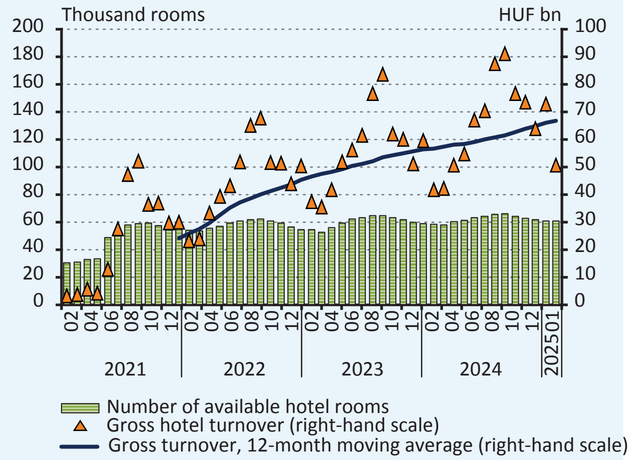


Source: HCSO

In 2024, the number of guest nights in domestic hotels increased by 8 per cent, also supported by domestic guest overnight stays. In 2024, 75 per cent of all overnight stays by Hungarian guests in domestic commercial accommodation establishments (30.1 million) and 80 per cent of overnights by foreigners were spent in hotels (Chart 14). The number of guest nights spent in hotels rose by 8.1 per cent in year-on-year terms across the country and by 10.4 per cent in Budapest (Annex, Chart 8). During the year, the number of overnight stays by foreigners in hotels increased by 9.9 per cent year on year, while the number of nights spent by domestic guests also rose by 6.2 per cent. In 2023, the latter data was even lower than in the previous year. In 2024, the number of overnight stays in hotels was about 12 per cent below the 2019 level nationally.[8] The number of hotel rooms on offer in all months of 2024 exceeded the number of rooms available in the same period of the previous year. Compared to 57,900 rooms in February 2024, the August figure was 65,900 rooms (Chart 15). With an 8-per cent increase in the number of guest nights spent in 2024, the gross revenue of domestic hotels in 2024 was 17 per cent higher than in the previous year.

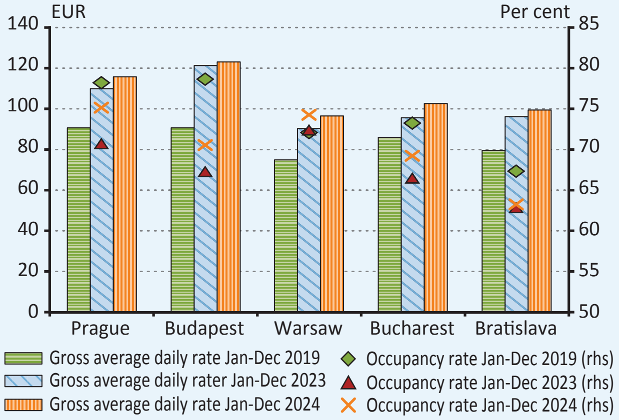
[8] From June 2022, the HCSO uses a new data source for data on commercial accommodation establishments, with data published back to 2021 from the new data source. Therefore, the comparability of accommodation data before 2021 and after May 2022 is limited. The change in the number of overnight stays in 2019 and 2023 was estimated using a correction factor calculated from the deviation of the data available from the old and new data sources of the HCSO for the same periods (January 2021 to May 2022).

Chart 15
Domestic hotel capacity and development of gross turnover



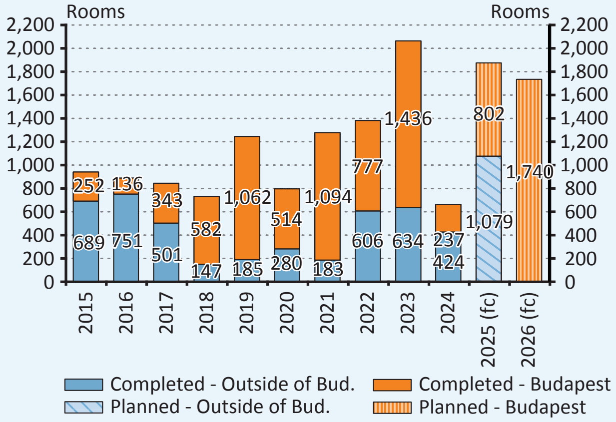
Source: HCSO

Chart 16
Average performance indicators for hotels in CEE capitals



Source: CBRE, STR Global

Chart 17
Number of completed and planned hotel rooms in Hungary



Note: Completions planned are based on data from end-2024.

Source: CBRE, Cushman & Wakefield, Hungarian Hotel & Restaurant Association

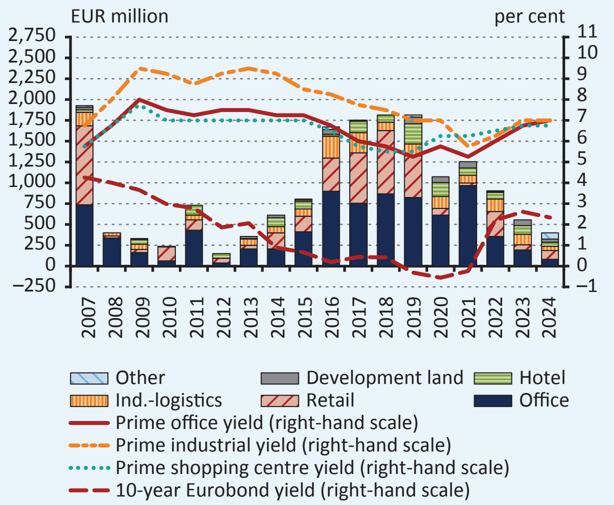
The performance of hotels in the CEE region continued to improve, with room occupancy exceeding the 2019 level only in Warsaw so far. In 2024, occupancy rates in hotels in the regional capitals ranged between 63 and 75 per cent, with Budapest recording 71 per cent, in line with the regional average (Chart 16). On average, the region is 3.4 percentage points behind the 2019 occupancy rate, but in Warsaw, the 2024 hotel occupancy rate is already 2 percentage points above the level from before the pandemic. In terms of average gross room rates, Budapest hotels remain the most expensive in the region at EUR 123 in 2024, which is 15 per cent higher than the regional average. In 2024, hotel room rates in all capital cities rose by an average of 4.6 per cent in a year-on-year comparison.

In 2024, the number of hotel rooms completed was more subdued, but high volumes are expected again in 2025. In 2024, a total of 660 new hotel rooms were completed across the country, one-third of the number of rooms completed in 2023 (Chart 17). 36 per cent of the completed rooms are located in Budapest. Ongoing hotel development projects are expected to generate significant completion volumes in 2025 and 2026, with an additional 3,600 hotel rooms under construction, 52 per cent of which are scheduled to be completed in 2025. In terms of room numbers, 70 per cent of hotels under construction are in Budapest, while the expected number of completions by 2025 is slightly higher in locations outside Budapest (57 per cent). In total, the number of rooms in hotel projects in progress at the end of December 2024 is equivalent to 5.6 per cent of the existing national hotel capacity of around 65,000 rooms. There have been significant delays in hotel completions in recent years, and there is also considerable uncertainty factored into current completion plans.

6 Commercial Real Estate Investments

The Hungarian commercial real estate investment market recorded turnover of around EUR 400 million in 2024, down 28 per cent on the figure for the previous year. In 2024, only the office market saw an increase of 25 basis points in prime yields, while yields in the industrial-logistics and retail segments stagnated; however, the number of transactions was low and investors continued to take a wait-and-see stance. The CEE region's 2024 investment volume increased in year-on-year terms, and among the six countries surveyed only Hungary and Slovakia showed a decline in investment flows. Weak domestic investment flows pose a risk to the market's perception, which, due to limited investment demand, has a negative impact on real estate development activity and may also lead to higher expected yield levels and lower property values. According to some market participants, foreign investors' interest in the domestic real estate market declined significantly, while their presence in the CEE region is still being maintained. In 2024, the average capital value of prime offices in the CEE countries increased by 0.4 per cent, while the estimated capital value of prime offices in Budapest decreased by 3.6 per cent due to rising yields in the first quarter. Measuring the change in capital values against the end of 2022 Q2, there is a decrease of 13 per cent on average across the CEE capitals and 24 per cent in Budapest. Based on the quarterly survey by the Royal Institution of Chartered Surveyors,[9] in 2024 Q4, real estate professionals were strongly divided on the cyclical position of the market, with half of the respondents reporting a market upturn and half of them still seeing the real estate market cycle in a recessionary phase. Since 2024 Q2, the professionals surveyed forecast negative capital value expectations only for the office segment.

Chart 18
Investment volume on the Hungarian CRE market, its composition and prime yields



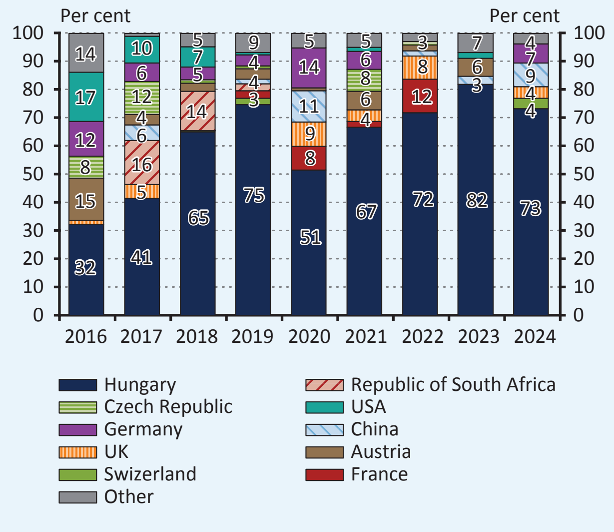
Source: CBRE, Cushman & Wakefield, MNB

In 2024, weaker investment activity was seen in the Hungarian commercial real estate market. Investment turnover in this market amounted to around EUR 405 million in 2024, down 28 per cent on the previous year (Chart 18). Of this volume, 26 per cent was generated by retail properties, 21 per cent by sales of office buildings, 13 per cent by sales of industrial-logistics real estate, 12 per cent by hotels, a further 28 per cent by development plots and other properties requiring further development. The average transaction size for the year was nearly EUR 11 million, 41 per cent below the 2023 average. In 2024, the prime yield[10] in the industrial-logistics and retail segments remained unchanged, while in the office segment it rose by 25 basis points in the first quarter and then stagnated after the second quarter, similar to the other segments. Since the trend reversal of falling yields in 2022 Q3, yields have risen by 175 basis points in the office segment, 150 basis points in the industrial-logistics segment and 50 basis points for shopping centres. However the rise in yields is moderate when compared to the recession that started in 2008; at that time, the office market saw a yield increase of 200 basis points, the industrial-logistics segment 225 basis points, and shopping centres 150 basis points in the span of just one year. At the end of 2024, prime office and industrial-logistics

[9] Royal Institution of Chartered Surveyors, Global Commercial Property Monitor. Available at: https://www.rics.org/news-insights/market-surveys/global-commercial-property-monitors

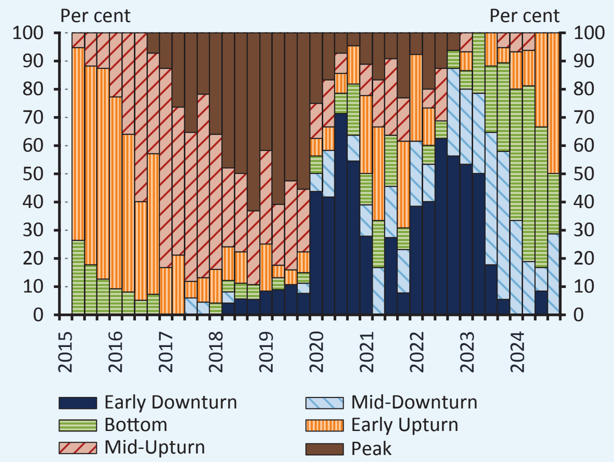
[10] Yield data refer to the (initial) gross yields of CRE transactions and are calculated as the ratio of the real estate's annual net rental revenue and the purchase price and reflect the yield level requirement of investors.

Chart 19
Investment volumes on the Hungarian CRE market by investors' country of origin



Source: CBRE, Cushman & Wakefield, MNB

Chart 20
Perceptions of the current phase of the property cycle



Note: Based on responses from January 2025.
Source: RICS

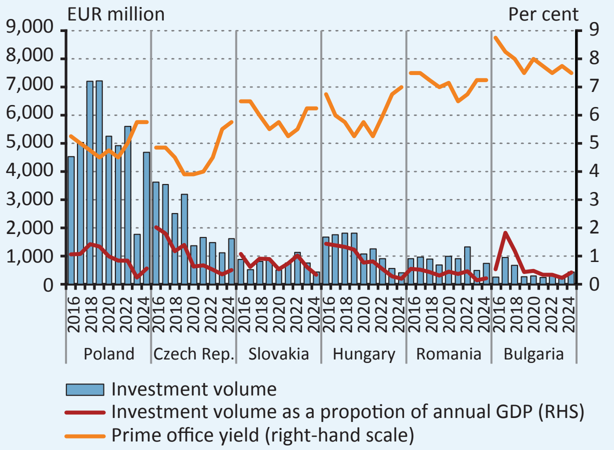
yields stood at 7 per cent, while shopping centres generated a yield of 6.75 per cent. During 2024, in line with easing monetary conditions, real estate yield spreads rose by 25 to 50 basis points across the segments compared to the 10-year Eurobond yield[11] (Annex, Chart 18).

In 2024, nearly three-quarters of investment flows were linked to domestic investors. Purchases by Hungarian investors accounted for 73 per cent of the 2024 investment turnover in 2024 (Chart 19). Aside from domestic investor transactions, investments consisted of purchases by investors from China, Germany, the UK, Switzerland and Turkey. Hungarian public open-ended real estate funds had a share of 5 per cent of investment turnover. Hungarian real estate investment companies accounted for 29 per cent, domestic closed-end and foreign real estate funds together for 24 per cent, foreign real estate investment companies for 18 per cent and private investors for 14 per cent of the annual investment volume in 2024 (Annex, Chart 17). The decline in investment flows and the low share of foreign investors may indicate a low level of liquidity in the domestic real estate investment market. Overall, Hungarian public open-ended real estate funds recorded a moderate capital outflow in 2025 Q1. Liquid assets coverage in public real estate funds remains at an adequate level, with the ratio of liquid assets to net asset value, taking into account the amount of immediately drawable credit lines,[12] standing at 50 per cent at end-March 2025 (Annex, Chart 20).

In 2024 Q4, real estate professionals were strongly divided on the cyclical position of the market. According to a survey by the Royal Institution of Chartered Surveyors (RICS), half of the experts surveyed believed that the commercial real estate market was in the early stages of recovery in 2024 Q4. This is a substantial increase compared to survey data from previous quarters. However, the other half of experts still put the cyclical position of the market at the bottom of the cycle or in a downturn phase, and within this, the share of those indicating a strong downturn phase increased significantly in the fourth quarter (Chart 20). *In the commercial real estate market, while foreign investor interest continued to decline, experts reported rising demand from domestic investors*, with a focus on industrial-logistics and retail. In these segments, between 14 and 38 per cent of respondents expect capital values to rise in the next three months, while the office market continued to have a negative outlook for 2024 H2 (Annex, Chart 25).

[11] The 10-year Eurobond yield is the average of the 10-year government bonds issued by AAA-rated euro area countries.
[12] Government Decree No 78/2014. (III. 14.) on the investment and borrowing rules applicable to collective investment forms permits the inclusion of unconditional and immediately drawable credit lines in the calculation of the ratio of liquid assets.

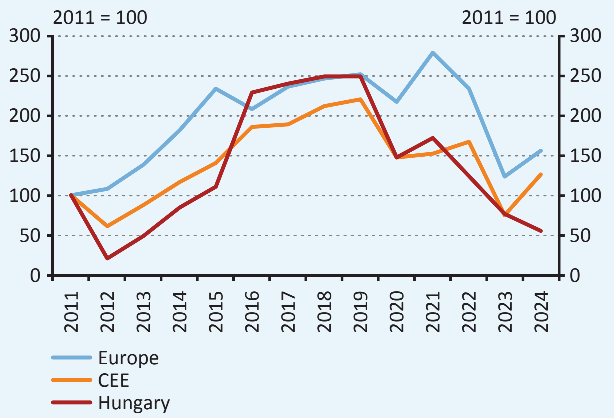
Chart 21
Investment volume and prime office market yields in the CEE region



Note: Investment volume as a proportion of GDP is calculated on the basis of annual GDP at market prices.

Source: CBRE, Colliers, Cushman & Wakefield, JLL, Eurostat

Chart 22
Investment volume of the CRE market in Europe, CEE and Hungary

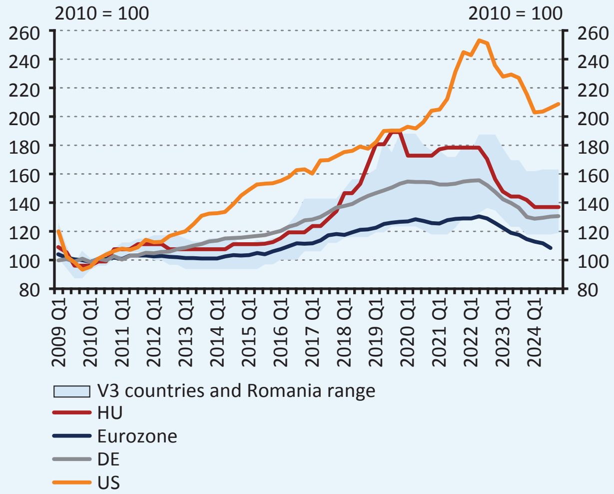


Note: European data include the investment volume of following countries: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, UK and Ukraine.

Source: CBRE, Cushman & Wakefield

Investment activity in the CEE region as a whole picked up in 2024, with transaction volumes increasing by an average of 69 per cent on an annual basis. During this period, prime office yields in the CEE region stagnated in Poland, Romania and Slovakia, increased by 25–25 basis points in the Czech Republic and Hungary, and decreased by 25 basis points in Bulgaria (Chart 21). Of the capital city markets surveyed, the lowest prime office yields are observed in Prague and Warsaw at 5.75 per cent and the highest in Sofia at 7.50 per cent. Looking at the evolution of investment flows as a share of GDP, the overall trend was negative across the region between 2016 and 2024. In terms of the size of economies as a share of GDP output, Poland had the highest commercial real estate investment turnover in 2024 (0.6 per cent). At the regional level, investment turnover in 2024 was 69 per cent higher than that in the previous year, with the largest increase in transaction volumes from a low base in Poland (165 per cent), but there were also significant advances in Bulgaria (96 per cent), Romania (53 per cent) and the Czech Republic (44 per cent). Turnover decreased in Slovakia (-43 per cent) and Hungary (-28 per cent). Thus, in 2024, the evolution of Hungarian investment flows did not yet reflect the turnaround in commercial real estate investment activity observed at the European and regional level (Chart 22).

Chart 23
Valuation of commercial real estate



Note: In the case of CEE countries, estimated office market capital value indices, in the case of the United States, all types of commercial real estate, in the case of Germany, an index estimated based on completed transactions including office and retail real estate. In the case of the Eurozone, an index estimated based on completed transactions including all commercial real estate types. Data point for 2024 Q4 is not yet available for the Eurozone.

Source: BIS, CBRE, Cushman & Wakefield

In 2024 H2, the decline in commercial property values stopped in the region and in some Western European countries, but slowed in the euro area. After a peak in 2021, and after two years of decline, in 2024, investment turnover in the commercial real estate market in Europe as a whole rose by 22 per cent (Annex, Chart 19). With a few exceptions, prime office yields stagnated in the more mature Western European office markets and in the CEE region, supporting the stabilisation of property values. In Germany, the price index for office and retail property rose in the second half of the year. Based on the evolution of prime yields and prime rents in the office market, the calculated capital value of prime office space in Western Europe[13] increased by an average of 6.6 per cent in 2024.[14] Valuation has also been on the rise in Central and Eastern Europe, with an average increase in capital values of 0.4 per cent over the year, ranging from (-5)-(+8) per cent across countries. Based on prime office yields and rents, the capital value of prime office investment in Budapest fell by 3.6 per cent in 2024, and within that in the first quarter. Compared to the end of 2022 Q2, when yield rise trends started, prime office yields and rents as of end-December 2024 reflect devaluation at a rate of 26 per cent in Western Europe, 13 per cent in the CEE region and 24 per cent in Budapest (Chart 23).

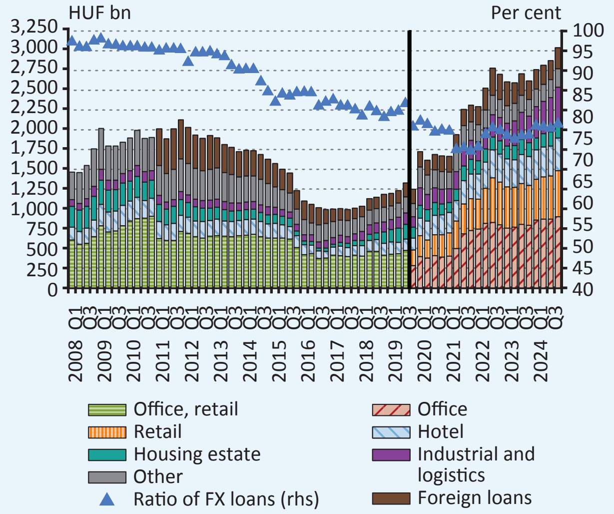
[13] The capital value of prime offices is a calculated, theoretical value, being the amount of the annual net rental revenue resulting from the level of prime rental rates capitalised by the prime yield as a perpetual annuity (annual prime revenue from rents/prime yield).

[14] As regards the changes in the capital value estimated based on the change in prime yields and rental rates it should be noted that the prime yield and rental rate represent the expected yield and rental rate in the case of top-quality properties at prime locations. The degree of the changes measured in the prime property category does not necessarily reflect the average trend in the entire office market, but it may serve as a good indicator of the direction of changes.

7 Commercial Real Estate Financing

Credit institutions' total portfolio of CRE-backed project loans expanded at a year-on-year rate of 16 per cent, with the portfolio showing an increase of 10 per cent in 2024 after filtering out exchange rate effects. Except for residential real estate projects, the loan portfolio of all real estate segments expanded during 2024. The share of non-performing loans in the CRE-backed project loan portfolio was low at 3.7 per cent at the end of the year. For 2024 as a whole, banks disbursed 36 per cent more CRE-backed project loans compared to the volume one year earlier, with industrial-logistics disbursements playing the largest role. In 2024, the share of foreign currency loans in disbursements rose to 71 per cent, compared to 56 per cent in 2023. The average interest rate on market-based forint project loans declined by 3.4 percentage points year on year overall, despite the increased level in 2024 H2. According to the MNB Lending Survey, in 2024 Q4, nearly one fifth of banks tightened financing conditions for office buildings and logistics centres in consideration of challenges in the industry. Looking ahead to 2025 H1, banks do not intend to change the terms of access to credit in any of the commercial real estate segments. Institutions saw a pick-up in loan demand in 2024 Q4 only for housing projects, and in 2025 H1, in addition to housing projects, loan demand for shopping centres may pick up after stagnating in previous quarters.

Chart 24
Composition of the credit institution sector's project loan stock for CRE purchase or development, by real estate type



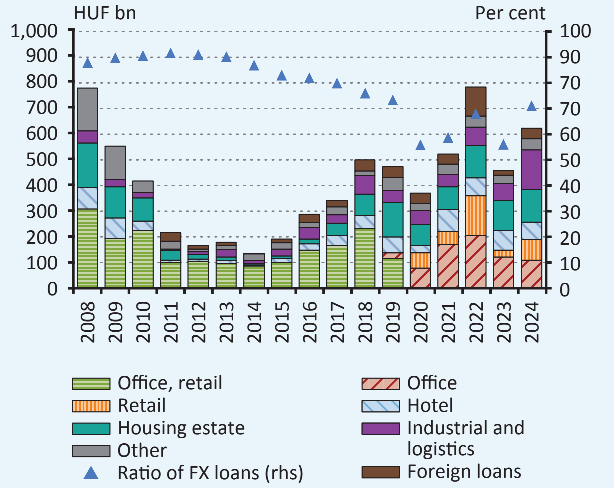
Note: No data breakdown by real estate type is available for loans provided to foreign companies before 2011. Based on the aggregated data of the data-providing institutions up to 2019 Q3, and based on individual loan agreement data from 2019 Q4; the comparability of data from these two periods is limited. From 2019 Q4, the data include loans from financial intermediary institutions (including investment funds) in addition to non-financial companies.

Source: MNB

The stock of CRE-backed project loans expanded in all segments except for residential housing developments. At end-December 2024, credit institutions held CRE project loans[15] in the amount of HUF 3,019 billion on their balance sheets, up 16 per cent versus the same period one year earlier or 10 per cent when adjusted for exchange rate effects (Chart 24). Loans for the development or purchase of office buildings accounted for the largest share of the portfolio, at around 30 per cent, with a year-on-year increase of 14 per cent. Industrial properties, with a 16 per cent share, saw the largest year-on-year increase of 40 per cent, while retail property and hotels saw annual increases of 15 and 13 per cent, respectively. Only in the case of housing estates did the loan portfolio shrink slightly, by one and a half per cent. By location of financed real estate, the principal amount of foreign loans increased by 12 per cent compared to 2023 Q4. Foreign currency loans, which are almost exclusively denominated in EUR, represented 78 per cent of the total portfolio at the end of 2024 Q4, after a year-on-year rise of 2 percentage points (Annex, Chart 22). The share of non-performing loans in the CRE-backed project loan portfolio of credit institutions was low at 3.7 per cent at the end of 2024.

[15] In monitoring the portfolio and disbursements of project loans secured by commercial real estate, the MNB has switched to using the credit contract-level data of the credit registry data service, which is available from December 2019. Compared to the previously used data tables based on the CRR definition of project loans, the credit registry provides a broader view of project loans, and therefore the comparability of the portfolio data before 2019 Q4 with 2019 Q4 and onwards in Charts 24 and 25 is limited.

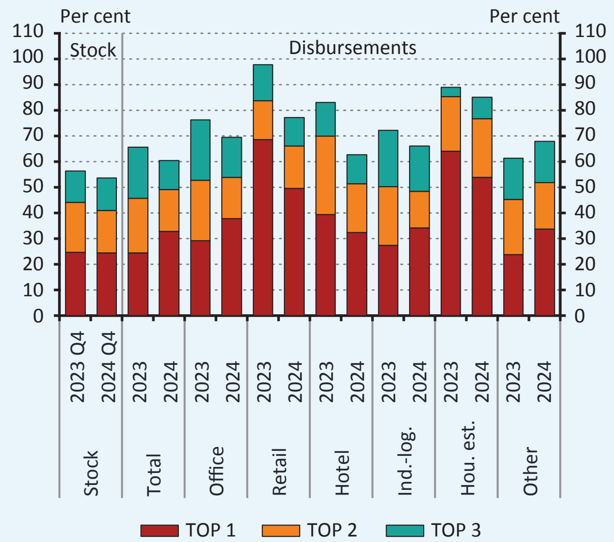
Chart 25
Project loan disbursements of the credit institution sector for the development or purchase of commercial real estate, by property type



Note: No data breakdown by real estate type is available for loans provided to foreign companies before 2011. Based on aggregated data of the data-providing institutions up to 2019 Q3, and based on individual loan agreement data from 2019 Q4; the comparability of data from these two periods is limited. From 2019 Q4, the data include loans from financial intermediary institutions (including investment funds) in addition to non-financial companies.

Source: MNB

Chart 26
Concentration of CRE lending activity by the credit institution sector



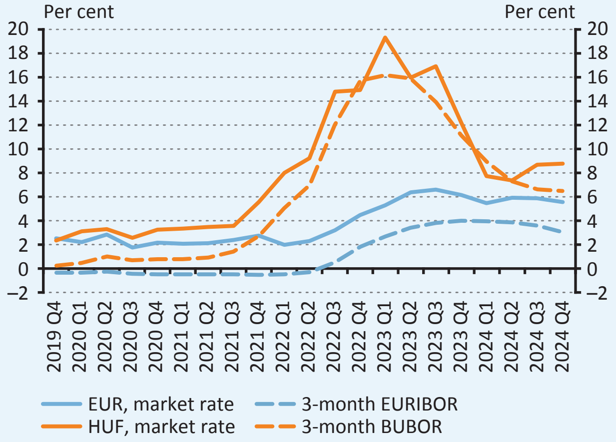
Note: Stock: the cumulative ratio of the stock of institutions with the three largest project loan stock secured by commercial real estate compared to the total stock of the credit institution sector. Disbursements: the cumulative ratio of the annual disbursements of institutions with the three largest commercial real estate-backed project loan disbursements within the total disbursements of the credit institution sector.

Source: MNB

Disbursements related to industrial-logistics real estate made the largest contribution to the increase in project loan disbursements in 2024. Credit institutions disbursed a total of HUF 623 billion in CRE-backed project loans for development or purchase purposes in 2024, representing an increase of 36 per cent (33 per cent when adjusted for exchange rate effects) relative to the same prior-year period (Chart 25). Disbursements for industrial real estate, which accounts for one quarter of annual loan issuance, increased by 132 per cent, while lending for retail trade also rose from a low base to 192 per cent. For housing estate loans, which account for 20 per cent of issuance, banks disbursed 9 per cent more volume than in 2023. In 2024, the volume of loans disbursed to finance office buildings was 10 per cent below the volume disbursed a year earlier, which may also have been influenced by the risks in the office market. The volume of loans for foreign real estate increased significantly from a low base in 2023 to 115 per cent in 2024. In 2024, the share of foreign currency loans in new disbursements was 71 per cent, reflecting an annual increase of 15 percentage points. Disbursements for construction purposes – similarly to 2023 – accounted for two-thirds of the total volume in 2024, a ratio that exceeded the 2020–2022 data by about 10 percentage points in the past two years. Compared to 2023, disbursements for construction purposes increased by 39 per cent and withdrawals for purchase purposes increased by 30 per cent in 2024.

Institutional concentration declined slightly in the commercial real estate project loan portfolio of credit institutions. As of end-December 2024, 15 credit institutions held the total project loan portfolio of the sector, with the three banks with the largest portfolios together accounting for 54 per cent of the principal outstanding in the sector (Chart 26). In terms of disbursements in 2024, the three most active financing banks disbursed 60 per cent of the sector-wide volume, which was 5 percentage points lower than the full-year figure in 2023. Breaking down the disbursement figures by type of real estate, the shares of the three institutions with the highest disbursement volumes range between 63 and 85 per cent within the different segments. In 2024, the highest concentration was measured in the disbursement categories of housing projects and retail real estate, with the three largest disbursing institutions accounting for 85 and 77 per cent of such disbursements, respectively. Compared to disbursements in 2023, in 2024 there was a lower concentration in all segments except the 'other' category and overall for the three most active institutions. In the case of offices, the combined share of the three institutions with the largest volumes of project loans decreased, while the share of the institution with the largest amount disbursed increased by 8 percentage points.

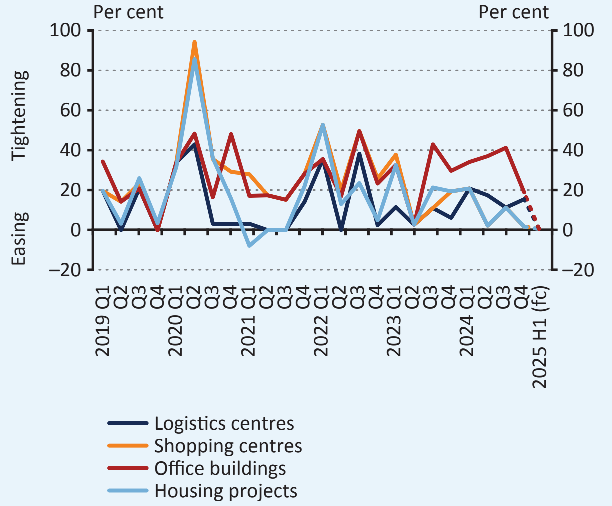
Chart 27
Average interest rate of new project loan contracts secured by commercial real estate and 3-month interbank offered rates



Note: Average interest rate weighted by the contractual amount of project loans secured by commercial real estate concluded in the given quarter. Interbank offered rates are quarterly averages.

Source: ECB, MNB

Chart 28
Changes in credit conditions of commercial real estate loans



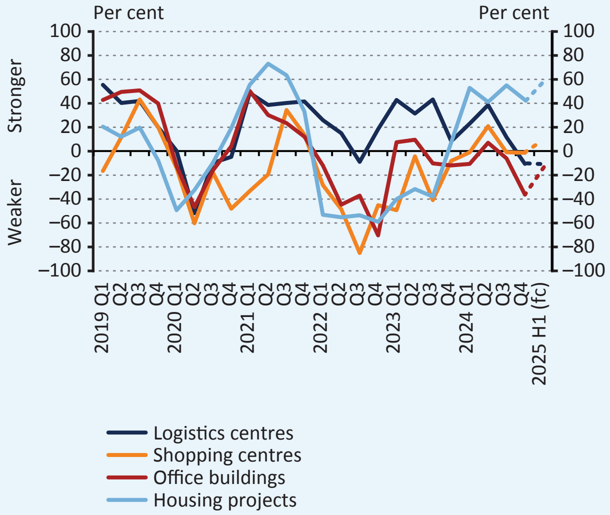
Note: Net ratio is the difference between tightening and easing banks weighted by market share.

Source: MNB, based on banks' responses

In 2024 H2, the average interest rate on market-based forint project loans increased, reflecting a composition effect. In 2024, the interest rate on new commercial real estate loan contracts denominated in HUF fell by 3.4 percentage points overall, to reach 8.8 per cent in the fourth quarter. In addition to the year-on-year decline, the average interest rate on new forint loan contracts rose by 1.3 percentage points in the third quarter, despite the downward trend in interbank interest rates during this period (Chart 27). The latter is due to the composition of disbursements, as the weight of disbursements linked to housing estates and retail properties, which typically have higher interest rates, was high, representing between 80 per cent and 84 per cent of HUF disbursements in the third and fourth quarters. By 2024 Q4, the interest rate on EUR-denominated loans fell by 0.6 percentage points year-on-year to 5.5 per cent.

Nearly one-fifth of banks tightened their financing standards for office buildings and logistics centres, but no further tightening is expected in the outlook. According to the MNB's quarterly Lending Survey, in 2024 Q4, 19 and 16 per cent of banks tightened financing conditions for office buildings and logistics centres, respectively, due to challenges in the industry. Lending conditions for shopping centres and housing projects remained unchanged relative to the previous quarter (Chart 28). Looking ahead to 2025 H1, banks do not intend to change the terms of access to credit in any of the commercial real estate segments, supported by their favourable capital position (Annex, Chart 24).

Chart 29
Changes in credit demand for commercial real estate loans



Note: Net ratio is the difference between banks indicating stronger and weaker demand, weighted by market share.

Source: MNB, based on banks' responses

In 2024 Q4, banks only saw a pick-up in demand for loans for housing projects, which could further strengthen in 2025. Based on the responses to the Lending Survey, 42 per cent of banks reported a pick-up in demand for loans to finance housing projects in 2024 Q4, driven by a more favourable interest rate environment, while 11 per cent reported a decline in demand for logistics centres and 36 per cent for office buildings. According to the responding institutions, lower demand may have been driven by a decrease in the resources that clients were devoting to projects (Chart 29). Looking ahead to 2025 H1, a growing share of banks expect loan demand for housing projects to increase, with 57 per cent anticipating stronger loan demand as a result of improving appetite for real estate investment, while 11 per cent and 14 per cent foresee a further decline in loan demand for logistics centres and office buildings, respectively. For shopping centres, credit demand may pick up in 2025 after stagnating in previous quarters.

Annexes

ANNEX 1: SUB-MARKETS OF THE BUDAPEST OFFICE MARKET[16]

The office market of Budapest is divided into the following eight sub-markets based on the data collection of the Budapest Research Forum (Chart 30):

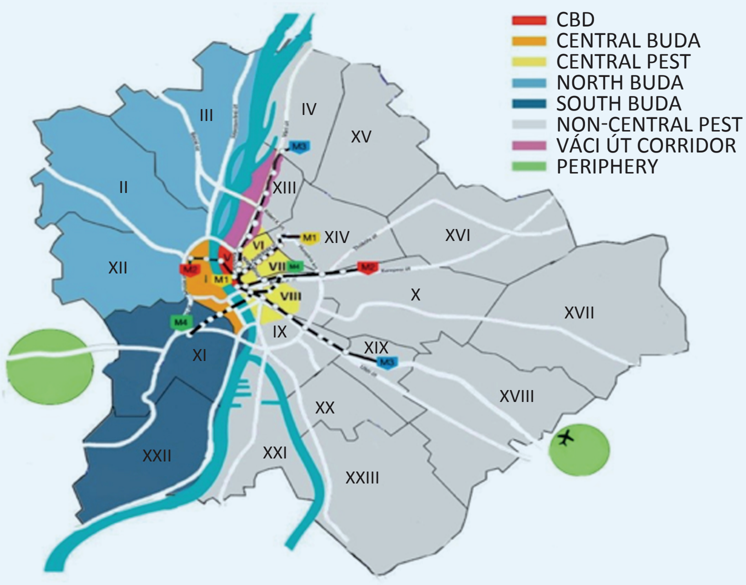
- **Central Business District – CBD:** The inner districts of Budapest, primarily the office buildings in the 5th district and on Andrássy út and the surrounding streets from Bajcsy-Zsilinszky út to the Oktogon. Most of the CBD is an architecturally protected area with a few category 'A' office buildings 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 30
Sub-markets of the Budapest office market



Source: Budapest Research Forum

[16] Source: Cushman & Wakefield

- **South Buda:** Districts 11 and 22. In this sub-market, the 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.

- **Váci út Corridor:** Area bounded by Szent István krt.–Váci út–Újpest Városkapu and the Danube. The Budapest office corridor is where the most significant office developments were realised due to the 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 siting 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, iO Partners, Robertson Hungary) 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 property.

- **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 property, but rents area additional to its existing tenement.

- **Owner occupation:** The real estate owner utilises the property, 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 are:

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

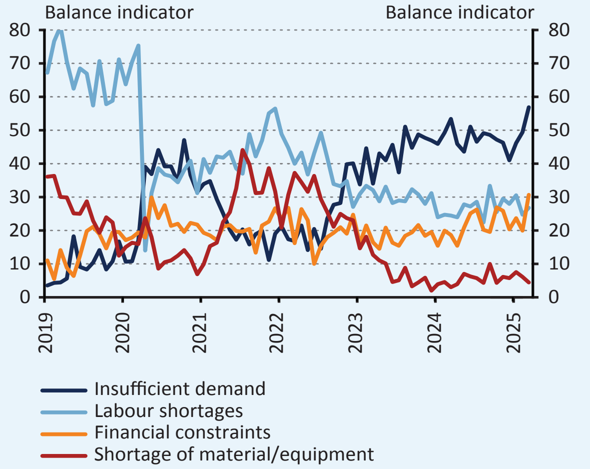
- **Take-up:** Measures the stock of actual new lease contracts; from the above, it includes the volume of new leases, pre-leases and expansions for the period considered.

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

ANNEX 3: ANNEX CHARTS

1 Macroeconomic environment

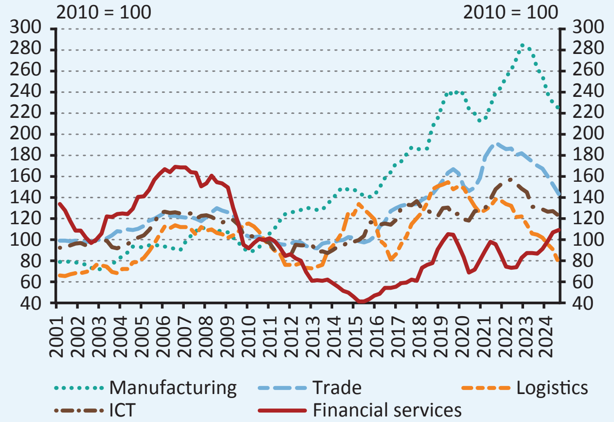
Chart 1
Factors limiting output in the construction industry



Note: Last data point March 2025.

Source: European Commission

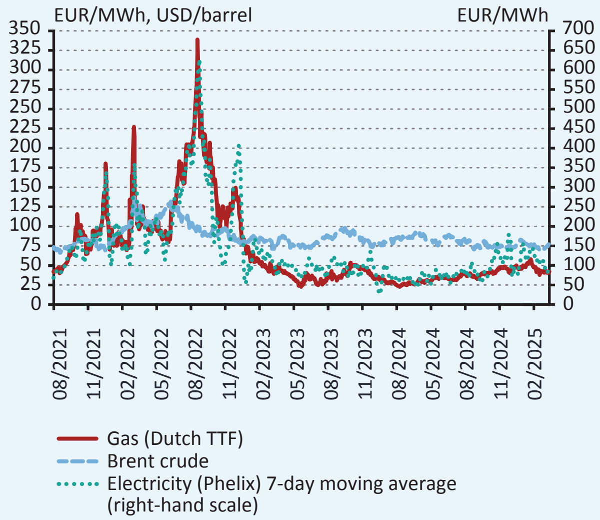
Chart 2
Investment activity of sectors relevant to the CRE market



Note: Four-quarter moving average. The ICT sector refers to the information and communications technology sector.

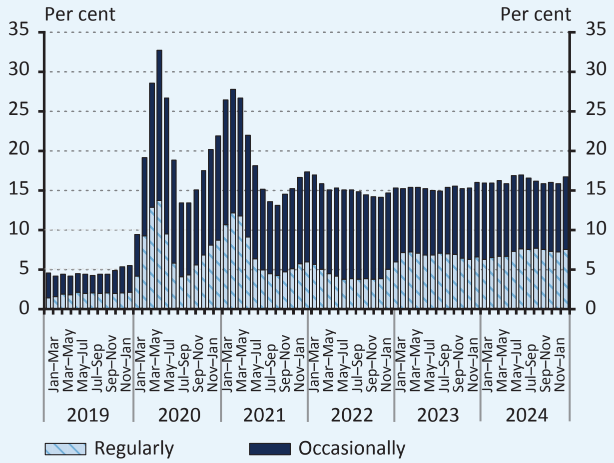
Source: HCSO, MNB calculations

Chart 3
Market price development for gas, oil and electricity



Source: Bloomberg

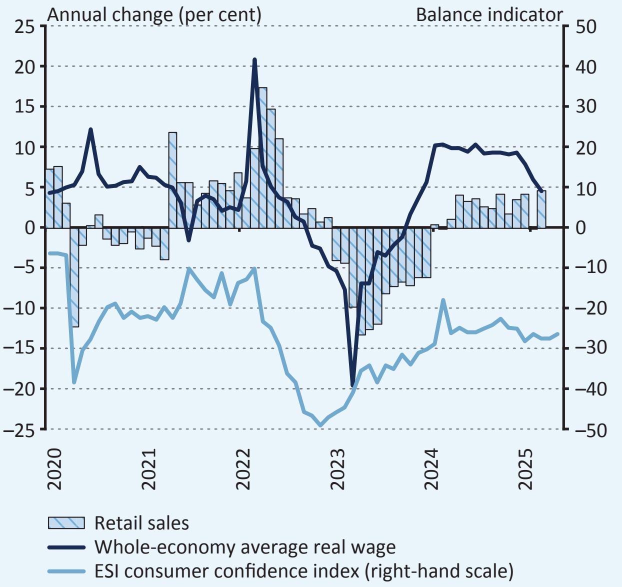
Chart 4
Employees working remotely or at home as a proportion of those in intellectual occupations



Note: Three-month moving average of employees working remotely or at home aged 15–74 as a percentage of those in intellectual occupations.

Source: HCSO

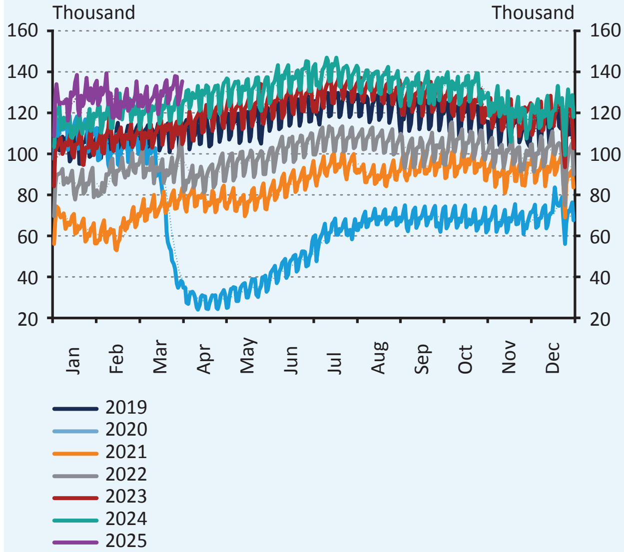
Chart 5
Development of retail sales, average real wage and consumer confidence



Note: Retail sales with calendar-adjusted data.

Source: European Commission, HCSO

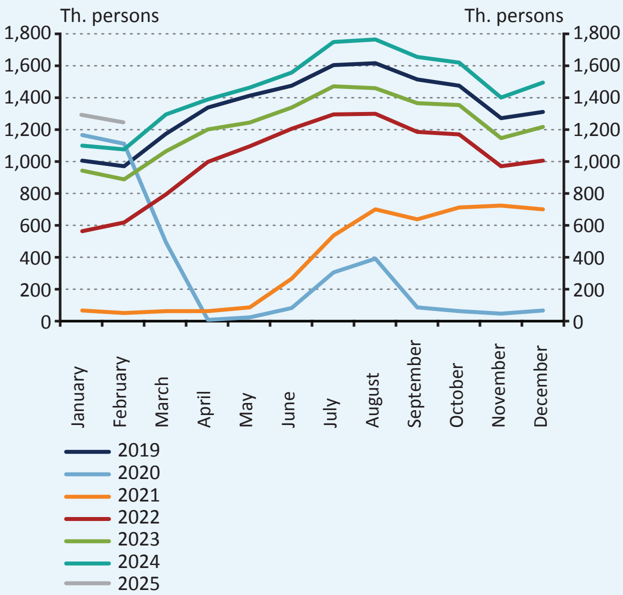
Chart 6
Development of the global number of commercial flights



Note: Commercial flights cover commercial passenger flights, cargo flights, charter flights and some business jet flight.

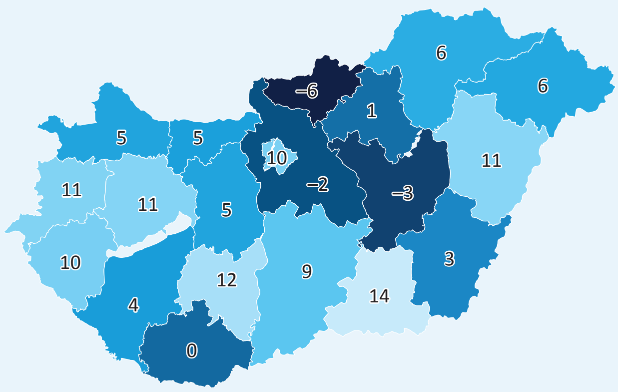
Source: Flightradar24

Chart 7
Budapest Liszt Ferenc International Airport passenger traffic



Source: HCSO

Chart 8
Annual change in the number of guest nights spent in hotels by county (January-December 2024)

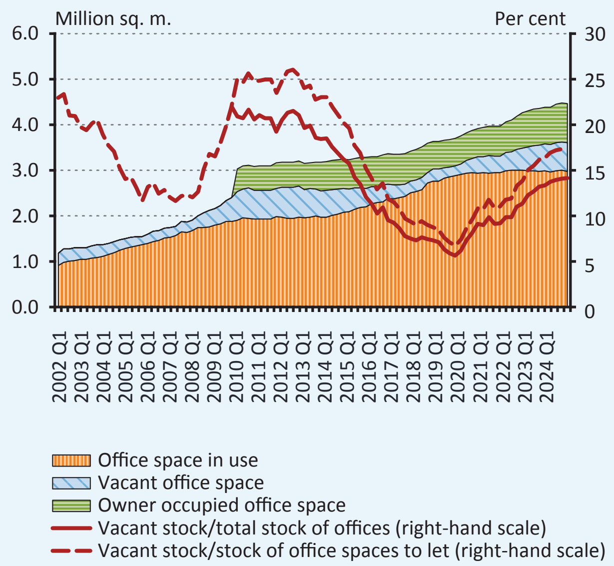


Note: Percentage change compared to the same period in 2023.

Source: HCSO

2 Office market

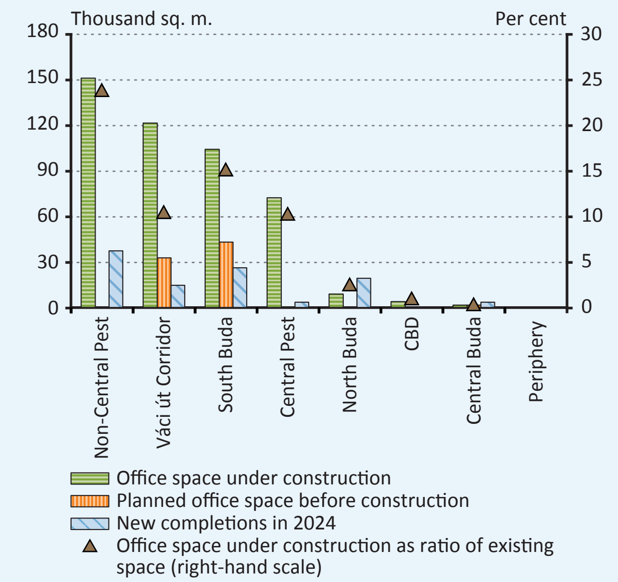
Chart 9
Floorspace and vacancy rates of modern offices in Budapest



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

Source: Budapest Research Forum

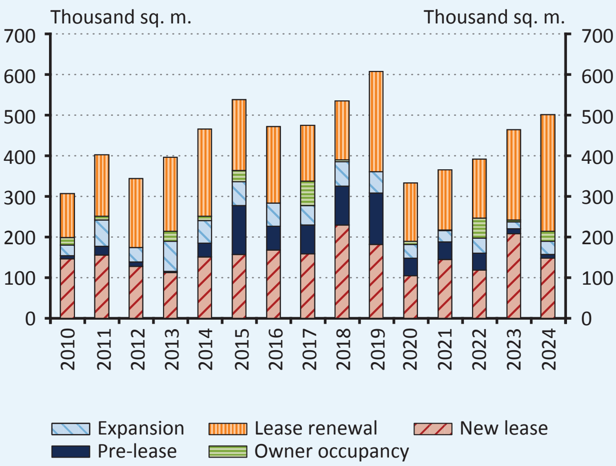
Chart 10
Distribution of Budapest office developments, renewal rate and new completions by sub-market



Note: Based on data from end-2024.

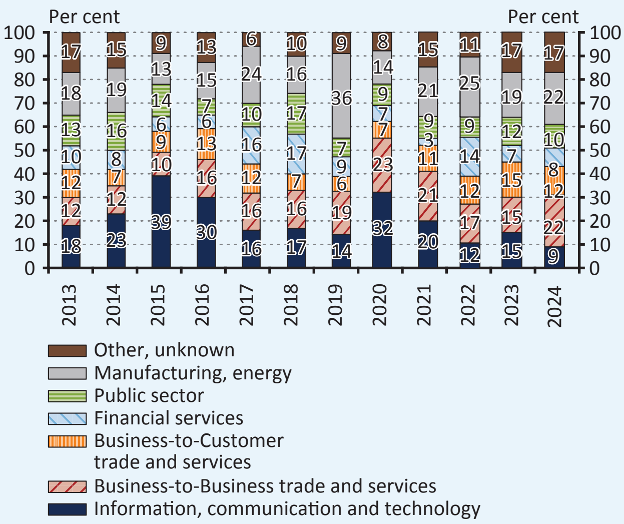
Source: Cushman & Wakefield

Chart 11
Volume and composition of rental demand in the Budapest office market



Source: Budapest Research Forum, Cushman & Wakefield

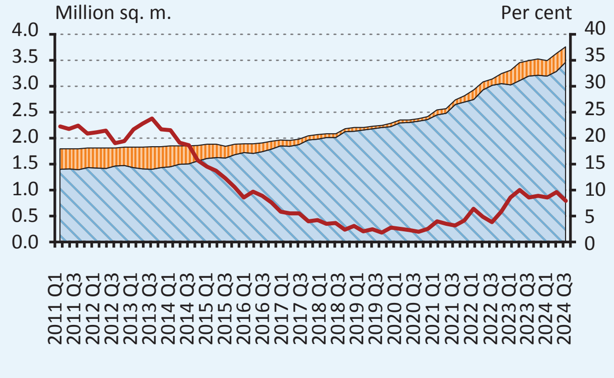
Chart 12
Take-up composition of the Budapest modern office market by tenant activity



Source: CBRE

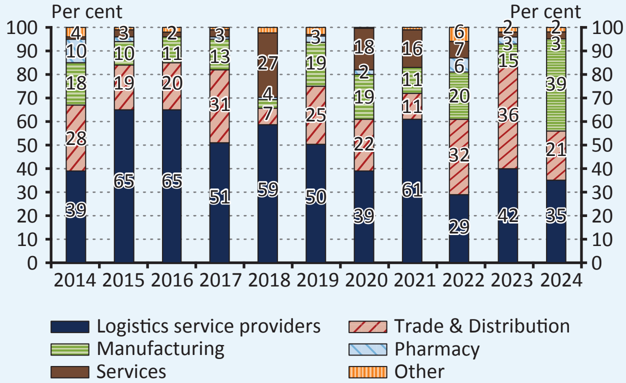
3 Industrial-logistics

Chart 13
Floor space and vacancy rates of modern industrial-logistics sites in Budapest



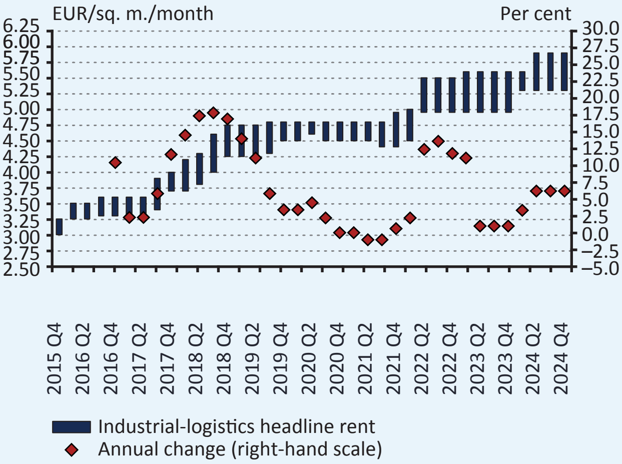
Source: Budapest Research Forum

Chart 14
Total demand composition on the industrial-logistics market of Budapest and environs by tenant activity



Source: Cushman & Wakefield

Chart 15
Typical rental rates of industrial-logistics properties in Budapest and environs

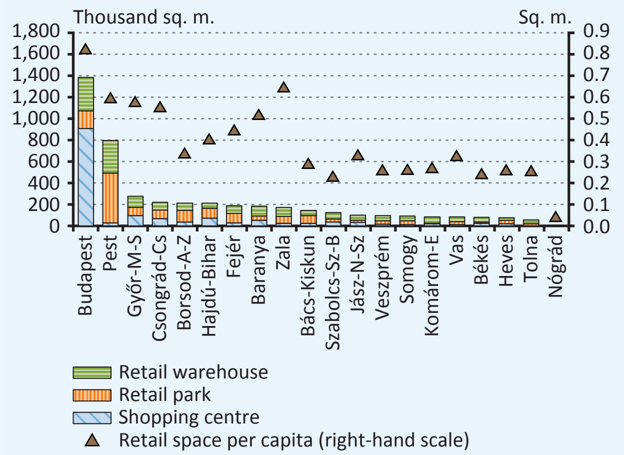


Note: Yearly change presents the yearly change in the mean of the rental rate range.

Source: CBRE

4 Retail market

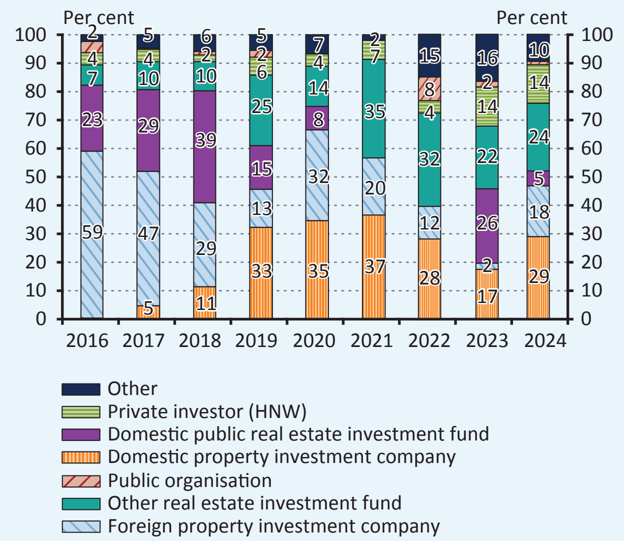
Chart 16
County distribution and composition of the modern Hungarian retail real estate stock



Note: Based on data from end-2024.
Source: CBRE

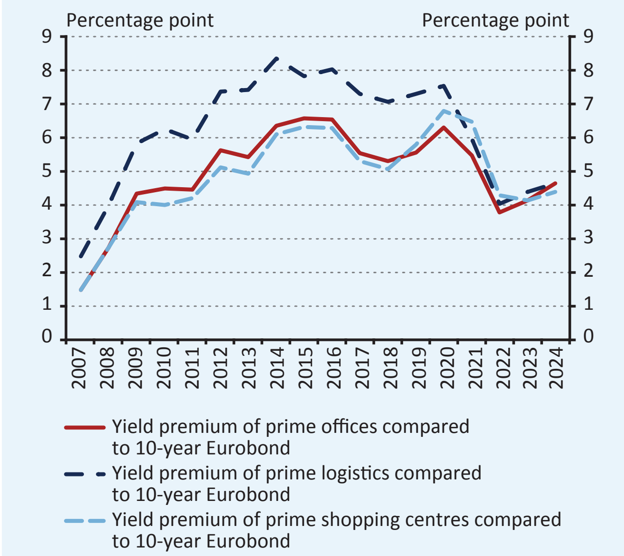
5 Commercial real estate investments

Chart 17
Investment volumes on the Hungarian CRE market by investor type



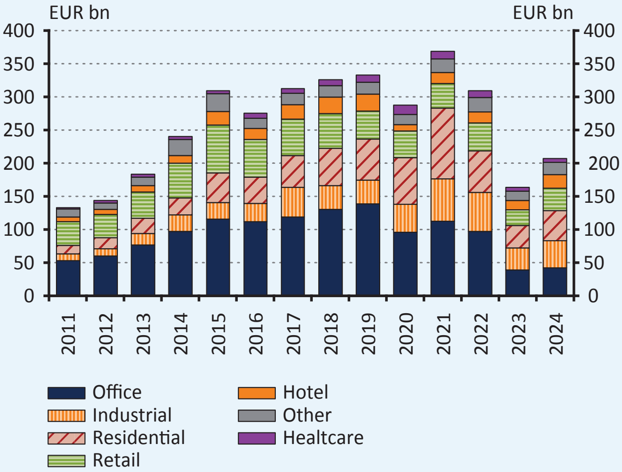
Source: CBRE, Cushman & Wakefield, MNB

Chart 18
Yield premium of Budapest prime real estate investments compared to 10-year euro government bonds



Note: The 10-year Eurobond yield is the Q4 average of the 10-year government bonds issued by AAA-rated euro area countries.
Source: CBRE, Cushman & Wakefield, ECB

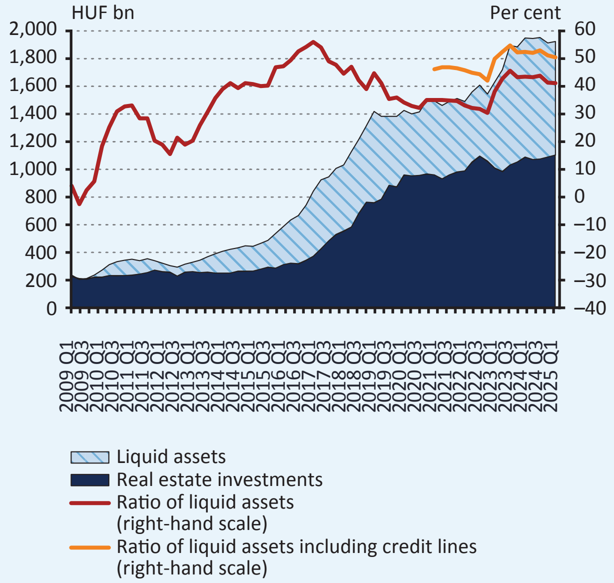
Chart 19
Investment volume of the CRE market in Europe



Note: Data include the investment volume of following countries: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, UK and Ukraine.

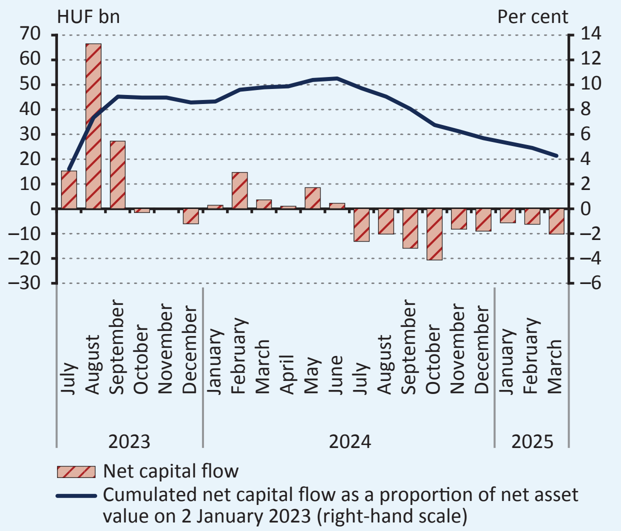
Source: CBRE

Chart 20
Asset composition of public real estate funds and the ratio of liquid assets to net asset value



Source: MNB

Chart 21
Net capital flows in Hungarian public real estate investment funds

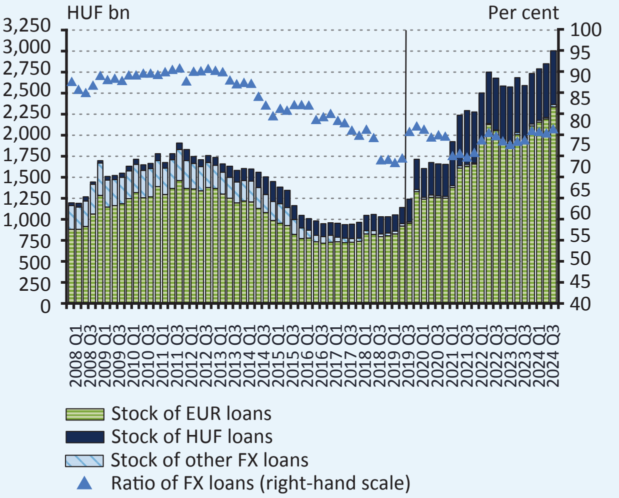


Note: The high capital inflows in August-September 2023 are related to the capital investments by the Magyar Fejlesztési Bank, won by the institutions in the tender of the Baross Gábor Capital Programme's Real Estate Fund Sub-programme.

Source: MNB

6 Bank financing of commercial real estate

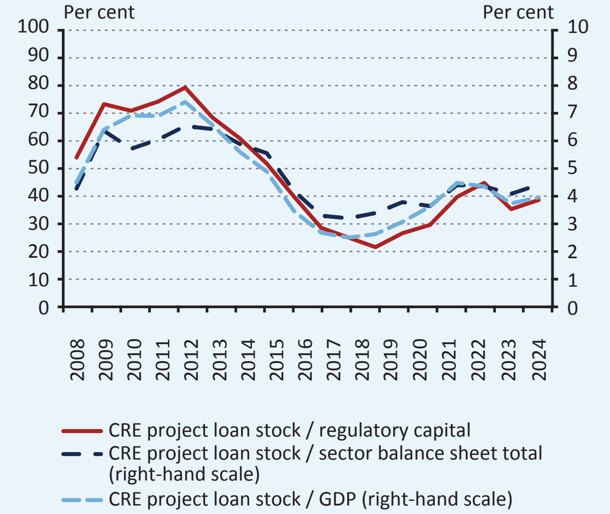
Chart 22
Composition of the credit institution sector's stock of CRE purchase or development project loans by currency



Note: Until 2019 Q3 based on aggregated data of the data-providing institutions, from 2019 Q4 based on individual loan agreement data, the comparability of data from these two periods is limited.

Source: MNB

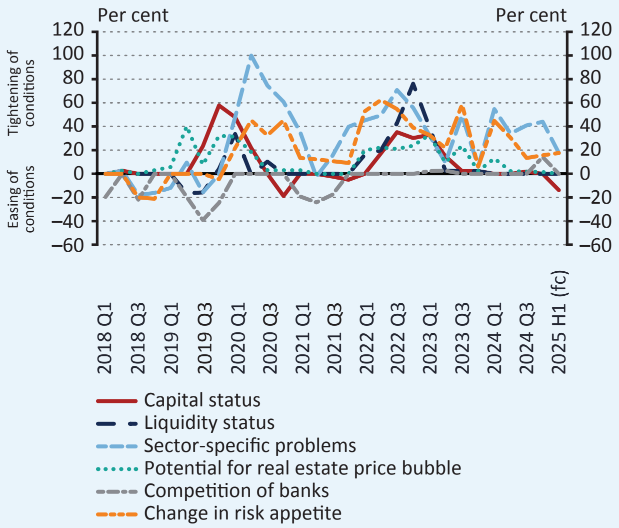
Chart 23
Importance of commercial real estate project loans in credit institutions sector



Note: Credit institutions sector without affiliates, based on non-consolidated data. Until 2019, based on the project loan portfolio according to the CRR project loan definition, from 2020 on the basis of a broader project loan definition, the use of the broader definition results approximately one-quarter higher project loan stock compared to the CRR definition. From 2019 CRE project loans outstanding includes real estate Bond Funding for Growth Scheme (BGS) bond stock.

Source: MNB

Chart 24
Factors behind changes in CRE loan conditions

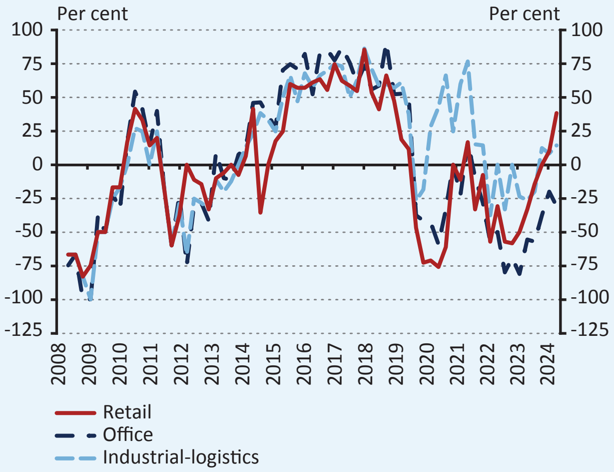


Note: Responses of the analysed banks weighted by market share.

Source: MNB, Lending Survey

7 Commercial real estate market survey of RICS

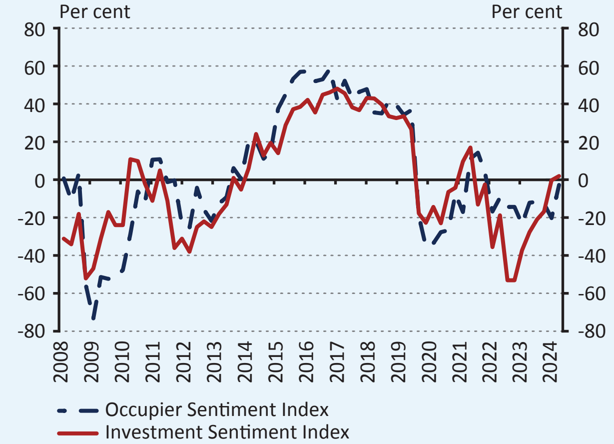
Chart 25
Three-month capital value expectations by segment



Note: Net ratio of respondents indicating increase and decrease in capital value. Based on responses from January 2025.

Source: RICS

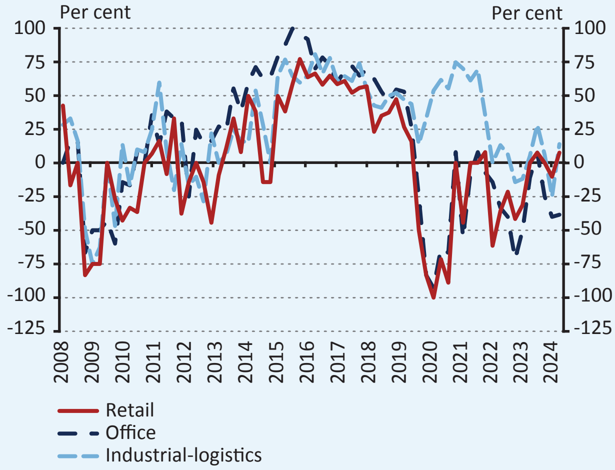
Chart 26
Development of Investment and Occupier Sentiment Index



Note: Based on responses from January 2025.

Source: RICS

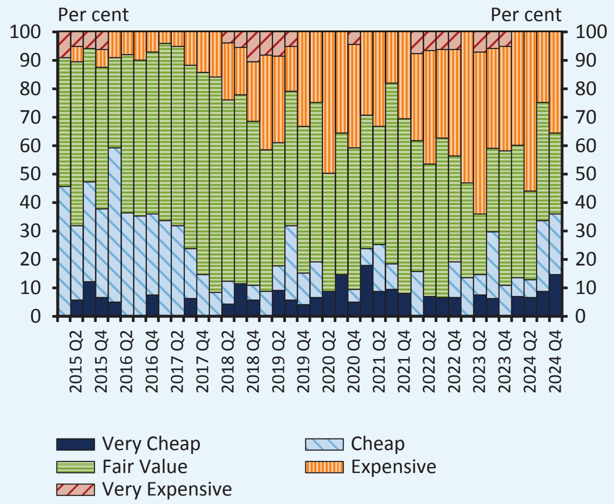
Chart 27
Development of rental demand by segment



Note: Net ratio of respondents indicating increase and decrease in capital value. Based on responses from January 2025.

Source: RICS

Chart 28
Valuation level of the commercial real estate market



Note: Based on responses from January 2025.

Source: RICS

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.

COMMERCIAL REAL ESTATE MARKET REPORT

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