

Market View

Budapest Office

Quick Stats

| | Change from | |
|------------|-------------|-------|
| | Q3 08 | Q4 07 |
| Take-up | ↑ | ↑ |
| New supply | ↓ | ↓ |
| Vacancy | ↑ | ↑ |
| Rents | → | → |
| Yields | ↑ | ↑ |

Hot Topics

- Due to outstanding pre-lets in Q4 annual take-up reached a historic new high of 330,000 sq m, which is ca. 3% up compared to 2007
- Supply of new office stock in 2008 amounted to just below 249,000 sq m; the highest completion figure ever
- The vacancy rate for Budapest office space stands at 16.8%, increasing 4.6 p.p. since Q4 2007
- Prime rents remained stable at EUR 23/sq m/m in the CBD but average rents are under pressure in Non-Central areas
- Prime office yields decompressed by 100 b.p. in a year to 6.75%

OVERVIEW

Modern office stock in Budapest reached 2.1 million sq m by the end of 2008 which is 13% (249,000 sq m) up, compared to year end 2007. This was the highest annual completion level ever recorded. Demand was balanced over the year; Q4 take-up was outstandingly high with 135,000 sq m. With the highest Q4 take-up ever, 2008 annual take-up was 330,000 sq m; slightly higher (3%) than the record volume of 2007.

Pre-lease represented a high share of take-up - 48% in Q4, significantly less office space became occupied than was the gross take-up and so net absorption did not keep pace with growth in supply. Currently some 354,000 sq m office space is vacant which equals the net absorption of the previous 18 months. Nevertheless, we need to add that relatively old buildings contribute the most to the high level of vacancy. Typical rental period and up to 90% occupancy in a newly built average „A” category project can be reached within 18-24 months.

• Vacancy

Vacancy stood at 16.8% at the end of 2008. It means a 1.7 p.p. increase compared to Q3 and 4.6 p.p. rise on an annual basis. The rate bottomed in Q1 and since then vacancy levels clearly diverge across submarkets. In 2008 a long trend has changed, when vacancy in CBD and Central went below city average while Non-Central and foremost peripheral areas witnessed a significant rise in vacancy levels. In the inner submarkets of Budapest fairly stable demand coupled with low completion. This resulted not only in decreasing vacancy rates (in relative terms) but in reduction of available space (in absolute terms) as well. Non-Central availability has almost doubled in sq m terms – 122,000 sq m available space came to the market in 2008. The high level of completion (85% of the new space was delivered in this submarket) has obviously impacted the vacancy level despite the high level of take-up. Peripheral areas however, have seen very little interest on demand side and hence negative net absorption of office space.

• Rental levels

Prime rents are stable at EUR 22-23/sq m/month but there were less transactions signed in this segment than the previous year. There was no addition to prime stock, and availability is limited in existing prime properties so we believe rental levels are sustainable here. On the other hand, increasing vacancy, future supply patterns and deteriorating demand expectations put pressure on rents in outer areas of the city. Larger tenant requirements and higher share of pre-lease and BTS (build-to-suit) agreements contributed to lower average rents this year. But disregarding size, we experience more generous landlord contribution or incentives which drive effective rents down. Headline rents have not started to decline as yet.

| | Q4 2007 | Q3 2008 | Q4 2008 |
|---------------------------------|-----------|-----------|-----------|
| Stock (sq m) | 1,856,000 | 2,057,000 | 2,108,000 |
| Space under construction (sq m) | 580,000 | 555,000 | 510,000 |
| Existing available space (sq m) | 227,000 | 311,000 | 354,000 |
| Quarterly take-up (sq m) | 92,400 | 59,400 | 135,000 |
| 12 month take-up (sq m) | 322,000 | 287,800 | 330,300 |
| Prime office rent (per sq m/m) | EUR 22-23 | EUR 22-23 | EUR 22-23 |
| Prime office yield | 5.75% | 6.25% | 6.75% |

NEW SUPPLY

There were 22 new office buildings delivered in Budapest in 2008 with total space of 249,000 sq m. Out of this space, 213,500 sq m was developed in Non-Central submarket, and only 6,500 sq m (partially extension) was realized in CBD. The largest developments last year were Haller Garden (32,600 sq m in Q3) and Spiral Phase I. (28,400 sq m in Q4). Besides Spiral, further 17,800 sq m was developed in Q4 in more projects:

- M3 Business Park II. (Non-Central) on 8,400 sq m,
- The Quadrum I. next to the Airport on 4,900 sq m,
- Andrásy 23 in CBD (2,500 sq m) and Városmajor Office Building extension (1,900 sq m) were added to the stock.

The wave of new completions has not peaked yet but the planned pipeline has been revised and reduced over the last couple of months. Because much of the H1 2009 pipeline is already pre-let, biggest growth in available stock is not expected until Q3. As from Q4 development and completion pipeline will gradually decrease.

TAKE-UP

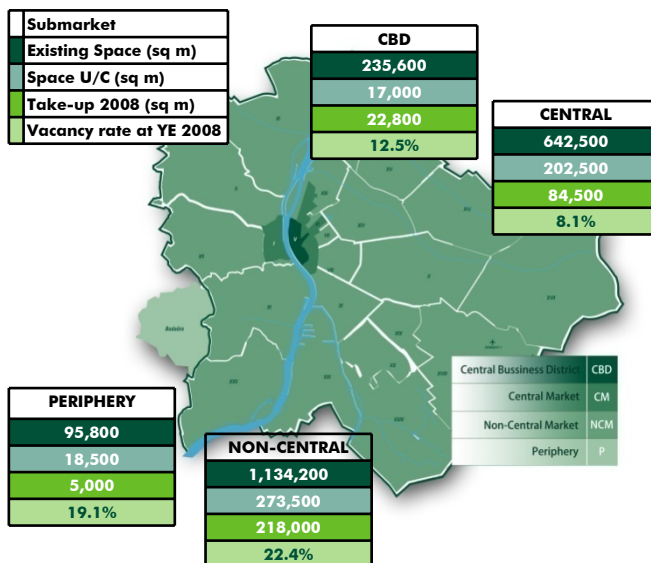
2008 was again a record year in terms of Budapest take-up (330,000 sq m in 2008). The non-central submarket again had the highest share in take-up with 66%, followed by central submarket with 26%. CBD accounted for 7% of all 2008 take-up, while periphery remained marginal with a share of below 2%.

The largest deal in Q4 2008 was the agreement between K&H Bank and Hungarian developer TriGranit when they signed for 46,800 sq m, part a new lease and part BTS agreement. Second biggest transaction was signed by MÁV (Hungarian State Railways) and Hungarian developer Biggeorge's for a pre-lease on cca. 21,000 sq m.

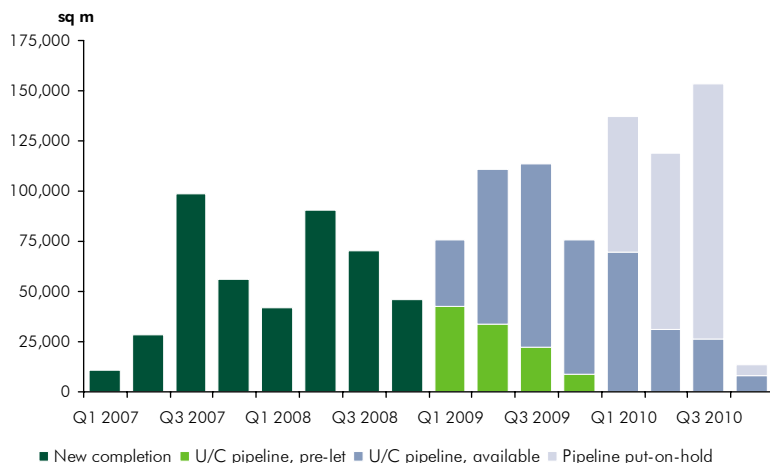
The majority of demand has been generated again by financial services (K&H, Raiffaisen and Morgan Stanley), followed by Hi-Tech and Telecom (IBM, Vodafone and LogMe).

The share of pre-let transactions reached 48% in Q4 (25% in all 2008) due to the above mentioned two large transactions. While in 2006, pre-lets amounted to only 21,000 sq m, in 2007 and in 2008 pre-lets (including BTS agreements) reached around 100,000 sq m.

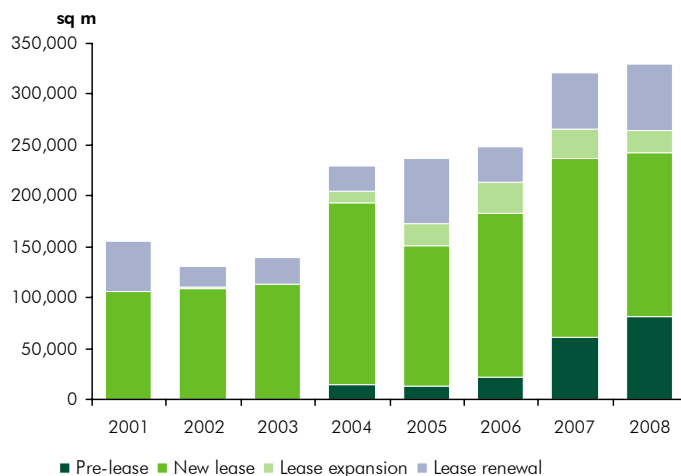
Budapest Office Submarkets



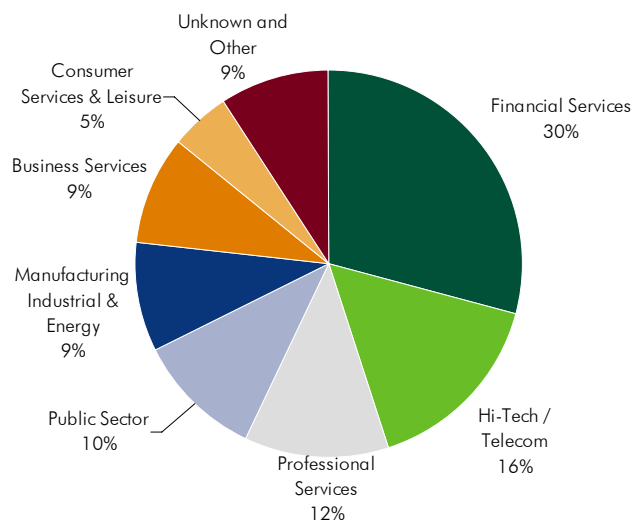
Budapest Office Completion and Pipeline



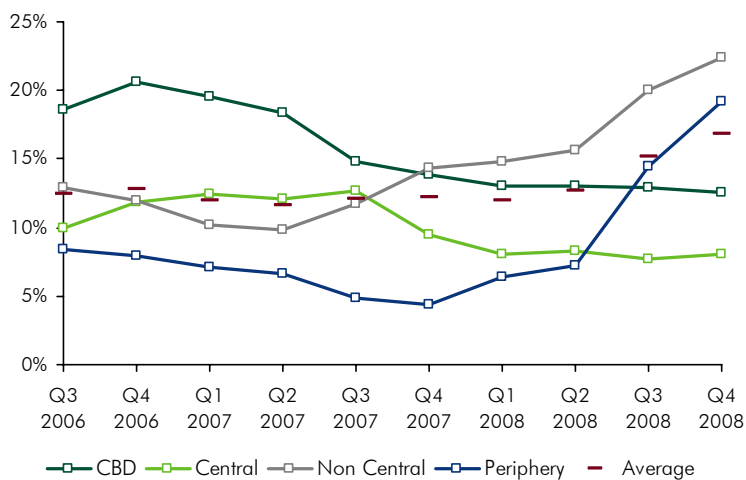
Budapest Office Take-up by Type of Lease



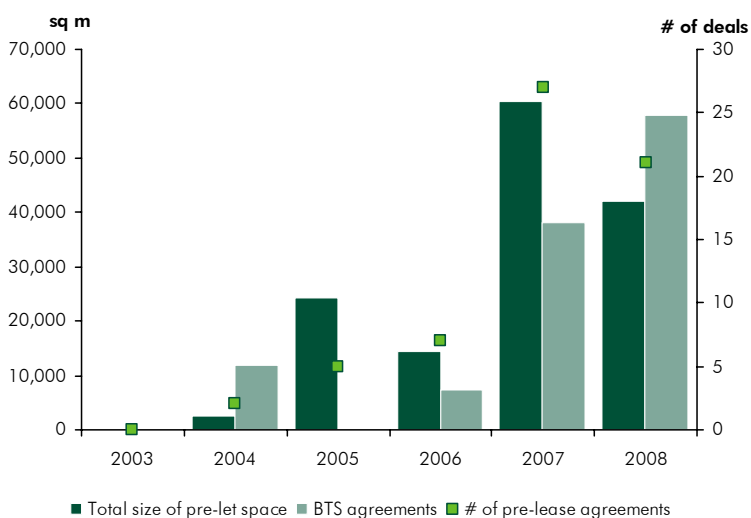
Office Take-up by Business Sector



Office Vacancy Rate (%) by Submarkets



Pre-lease and BTS Agreements in Budapest



OFFICE INVESTMENTS

Hungarian investment market was very quiet in 2008. The highest volume was registered in office among the different asset classes with EUR 321 million which is 78% share in the total of EUR 410 million.

The biggest office deal was registered in Q3 when the long awaited sale of Bank Center, located in the CBD (EUR 120 million) was finally closed. Apart from this transaction, the forward sale of Krisztina Palace to Uniqa and the purchase of Buda Square by Hungarian private individuals can be recorded as transactions above the average office investment deal size (above EUR 32 million).

Prime yields bottomed out at cca. 5.75% in Q4 2007, since then we have seen continual decompression of yields. At the end of 2008, prime yields in Budapest were at 6.75% however no trend setting transaction happened in Q4.

OUTLOOK

After 249,000 sq m of new office space added to the stock in 2008, some 375,000 sq m is scheduled for delivery in 2009 and a further 135,000 sq m is already under construction of the 2010 pipeline. Due to the relatively high share of pre-leased stock (28%), available pipeline for 2009 is some 267,000 sq m.

Further developments are unlikely to be started in the near future unless significant pre-lease agreements are signed for the project. Developers are, however, very interested in BTS solutions, and ready to start any planned development. The total area of planned projects which have been already put on hold amounts to 290,000 sq m.

Demand pattern is about to change. Pre-lease agreements and BTS solutions are gaining importance, and are taking a higher share of annual take-up every year. In this financial and economic climate, this trend will also continue in the future. This cautious approach by developers can help to avoid serious imbalances in the future supply market.

Despite lower development pipeline, the vacancy level is expected to rise further in every submarket of Budapest except for the CBD where construction is very limited. Rising vacancy and economic turbulence will result in decreased tenant demand and put further downward pressure on rental levels.

Largest Office Lease Transactions, 2008 Q4

| Tenant name | Project name | Submarket, district | sq m |
|-------------|----------------------|----------------------|---------|
| K&H Bank | Millennium CC* | Non-Central, 9 | 46,800 |
| MÁV | Parkway Offices** | Non-Central, 8 | 21,000† |
| IBM | more buildings | Central, Non-Central | 11,800 |
| EDS | Bartók Ház | Non-Central, 11 | 9,200 |
| Nestlé | Millennium Tower II. | Non-Central, 9 | 4,000 |

* BTS agreement + new lease

** Pre-lease agreement

† estimated size

Largest Office Scheme due for Delivery in 2009

| Project name | Developer | Submarket, district | sq m* |
|--------------------|----------------------|---------------------|--------|
| Capital Square | Hochtief | Central, 13 | 29,500 |
| Parkway Offices | Biggeorge's | Non-Central, 8 | 23,800 |
| Corvin Offices II. | Futureal | Central, 8 | 23,700 |
| REsidence 1-2. | Raiffaisen Evolution | Central, 1 | 18,800 |
| Eiffel Square | ConvergenCE | Central, 6 | 18,400 |

* Including only office area

Definitions

STOCK – modern office stock is defined as units built since 1990, excluding owner occupied/governmental buildings, graded to categories "A" or "B"

VACANCY RATE – a ratio of vacant office space to existing speculative stock

TAKE-UP – gross office space that has been leased in a given period, including renewals and pre-lets; defining moment is the signature of legally binding document

UNDER CONSTRUCTION – office space currently being developed

NET ABSORPTION – the change in occupied stock within a market during the survey period; the main factors that cause the net absorption and take-up to be different are lease extensions, pre-leases signed in previous survey period, tenants moving between existing premises or tenants leaving the office market.

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