

Budapest Offices

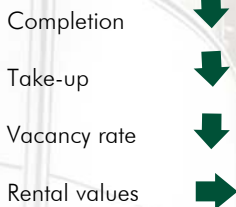
FOURTH QUARTER 2007

2007 broke records both on supply and demand side with vacancy slightly changing downwards.

All year gross demand exceeded expectations, and was up by 30% on 2006.

Two big projects delayed to 2008 and so completion level in Q4 fell back on Q3.

Q4 AT A GLANCE



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In 2007 Q4 the Budapest Research Forum reassessed the office stock and made alterations to the figures. As a result, 65,000 sq m of office space were taken off the Budapest total. This change resulted in a lower office stock figure in Q4 than in Q3, however there were new projects handed over at the year end.

Budapest modern speculatively built office stock stands at 1.86 million sq m at the end of 2007. The annual completion level reached a record 193,700 sq m which is the highest ever. Most of this was completed as category A office space. Twenty projects were completed this year, of which six exceeded 15,000 sq m. New supply was evenly dispersed in the Central and Non-Central submarkets across the most significant office hubs, whereas no new office projects delivered in the Periphery this year.

We expect an even stronger completion pipeline for 2008 especially in Q2 and Q3. According to our figures, new supply in 2008 will exceed the 2007 figure by 25%.

Demand kept pace with supply dynamics in 2007. As we predicted, in terms of demand this year was the most successful one ever with 322,000 sq m. taken up. This represents an increase of 29% on 2006. The take-up level in Q4 reached 89,000 sq m which was 17% lower than the all-time high in Q3. Nevertheless, it was the second best quarter ever recorded.

Take-up is traditionally higher in the Non-Central area, and 2007 was no different. The Non-Central and Central areas together accounted for 85% of all Budapest take-up. Take-up was unusually strong in the periphery and relatively high in the CBD as well during the year.

Net-absorption was 17% lower than in 2006. This is mainly due to the BRF stock correction in Q4 which removed some 65,000 sq m fully let office space from the stock. If one disregards the correction, net-absorption showed an annual increase of 28%, just in line with take-up growth.

Due to very high demand figure, the aggressive completion level did not drive up vacancy. The vacancy rate for Budapest as a whole stands at 12.3%, which represents a 50 bp decrease on 2006 year end. This healthy level of vacancy provides tenants with the option to choose between several office projects with various specifications. 2007 has seen a major growth in the supply of office space, not only in volume but also in variety. In coming years we expect new locations to emerge as office hubs.

Rents remained stable in Q4. We saw evidence for prime rent stabilising at EUR 22-23/sq m/month. Average rents remained highly dependent on the individual buildings.

Q4 2007	CBD	Central	Non-Central	Periphery	All Budapest
COMPLETION (sq m)	4,500	6,500	45,400	0	56,400
TAKE-UP (sq m)	9,700	45,700	32,900	700	89,000
VACANCY RATE (%)	13.9%	9.4%	14.5%	4.4%	12.3%
HEADLINE RENT (EUR / sq m / month)	17.00-23.00	13.00-16.00	11.00-14.00	9.00-12.00	12.00-14.00

MAJOR OFFICE LETTINGS, Q4 2007

Tenant	Project	Size (sq m)
Nokia Siemens Network	City Gate	14,000
ELLA/AXA*	BSR	7,400
Nokia	Studium	5,800
National Institute of Vocational and Adult Education	Lothar Office Building	5,100
Exim Bank	Süba Office Building	5,000

* pre-lease
Source: BRF / CB Richard Ellis
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SUPPLY

Supply level with 193,700 sq m in 2007 has slightly surpassed the historic high recorded in 2000. Last quarter with 56,400 sq m showed a decrease q-o-q due to delays with two significant projects, but Q4 was still the second best quarter last year. The following buildings were completed:

- **Népliget Center I., Office Garden and Gateway Office I.-II.** in Non-Central market (45,400 sq m),
- **Vigadó Offices** (Vörösmarty No.1) in the CBD (4,500 sq m),
- **Merkúr Palace** in the Central-market (6,500 sq m).

DEMAND

Gross demand reached a record 321,200 sq m in 2007 which is the highest registered level ever. In Q4 take-up amounted to 89,000 sq m. This is a decrease of 17% q-o-q but an increase of 13% y-o-y. In this quarter take-up was driven by newly signed agreements, while pre-lets and renewals had a concomitantly low percentage. The deals completed split as follows:

- 67,000 sq m new deal or expansion (76%)
- 10,100 sq m pre-lets (11%)
- 11,800 sq m renewal (13%),

In 2007 as a whole 58% of the deals were new agreements, pre-lets and renewals represented 17% and 16%, while expansions had a 9% share.

The biggest deal in Q4 was signed by Nokia-Siemens-Networks (14,100 sq m in City Gate). BSR Center, due for completion in 2008 Q1, has already signed a pre-lease agreement with Ella/AXA for 7,400 sq m, which was the second biggest pre-lease agreement of 2007. Roosevelt 7/8 and Studium Office Building proved to be popular among tenants in Q4 again, reaching 90% and 70% occupancy, respectively.

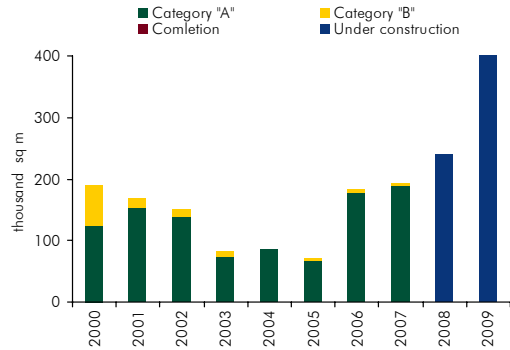
There were 110 deals done in Q4, with a similarly high average deal size to the previous quarter (824 sq m). Nineteen deals were signed for office space larger than 1,000 sq m. The Central market had a share of 51% in the Q4 take-up, followed by Non-Central market with 37%, CBD with 11% and Periphery with 1%.

RENTS AND VACANCY

Neither prime rents nor average rental levels in Budapest have changed significantly compared to the previous quarter. Although there is a price premium for CBD and Central locations, net effective rent is contingent on the individual building rather than the location itself. In the coming years we expect more polarization across the submarkets.

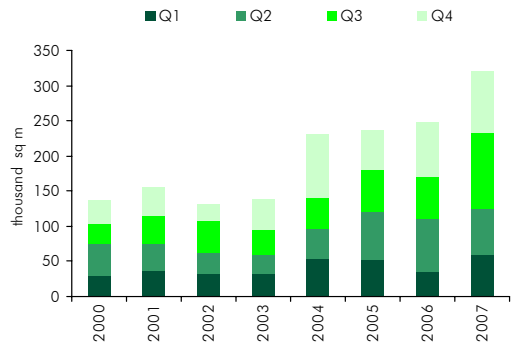
Budapest vacancy decreased slightly in 2007 from 12.8% to 12.3%. Central and Periphery were down by 240 and 350 bp on Q4 2006 while CBD vacancy dropped by 660 bp (!) to below 14%. At the moment Non-Central vacancy is the highest with 14.5% but this is clearly the consequence of the stock adjustment which was carried out in this submarket. Without this change we would have seen a decrease in the Non-Central rate, and thus a more significant fall in vacancy rates overall.

SUPPLY - OFFICE DEVELOPMENT IN BUDAPEST SINCE 2000



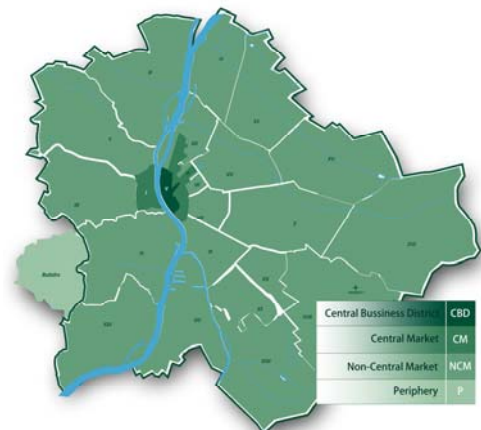
Source: BRF / CB Richard Ellis

DEMAND - OFFICE TAKE-UP BY QUARTERS SINCE 2000



Source: BRF / CB Richard Ellis

BUDAPEST OFFICE MARKET SEGMENTATION



Source: BRF / CB Richard Ellis