CB RICHARD ELLIS

Market View
Budapest Office

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Q4 2009

Quick Stats

	Change from Q3 09	Change from Q4 08
Take-up*	↑	↓
New supply	↓	↑
Vacancy	↗	↑
Rents	↘	↓
Yields	→	↑

*Take-up excludes renewals

Hot Topics

- 63,800 sq m completion in Q4 brings annual new supply to a record high of 300,200 sq m
- Take-up went up on Q3 and reached 34,900 sq m but total leasing activity remains highly driven by renewals
- Vacancy rate stands at 22% after increasing over two years
- Rents are declining in most locations; rental gap is narrowing between Central and Non-Central locations
- 90% of the active pipeline will be delivered by mid-year then new supply disappears for many quarters

OVERVIEW

The contraction of the Hungarian economy was around 6.5% in 2009. Although manufacturing seems to have the worst behind, service sectors still accounted for negative GDP growth in Q4. Business expectations are less pessimistic than half a year ago, however real optimism has not started to unfold as yet. Loss in employment also negatively impacts upon expansion strategies and hence office requirements. The demand side has clearly deteriorated in the second half of the year, however, seasonal effect in Q4 helped to reach a higher take-up level than the previous quarter. Many completions were delayed until 2010, causing supply growth in Q4 to be less than expected.

• Stock

Modern speculative office stock in Budapest increased to 2.4 million sq m during 2009. The completion level fell to 68,100 sq m in Q4 (compared to 118,500 sq m in Q3). Total annual completion reached 300,200 sq m which is 21% up on 2008. This is the largest annual addition to stock in absolute terms ever. Built to suit (BTS) and pre-leased developments had a high share in new supply: 78,700 sq m (26%) was due to BTS agreements while another 82,000 sq m (27%) had been pre-leased prior to completion.

• Take-up

Total leasing activity (TLA) summed up to 63,800 sq m in Q4 and 294,400 sq m in 2009 (compared to 330,300 sq m in 2008). Demand remained fuelled by renewals also in the last months of the year. Take-up (TLA excluding renewals) reached 34,900 sq m in Q4 which is 50% up on the historic low of Q3. Annual take-up amounted to 172,000 sq m compared to cca. 265,000 sq m p.a. in 2007 and 2008, both. This decline reflects a 35% fall in demand for office space in previous year.

• Vacancy

Given the disequilibria of supply and demand, vacancy has been on the rise since the beginning of 2008. Current vacancy rate for Budapest stands at 22% compared to 12% and 17% at year end 2007 and 2008, respectively. The range has narrowed between the two extremes since end of previous year: Buda Central vacancy increased to 12% in a year (from 5%), while NCP South vacancy slightly declined to 34% (from 39%).

• Rental level

Rental pressure resulted in lowered headline rents across every location in the city. In Non-Central areas (especially in south hubs), offered rents are around EUR 10 per sq m per month. In such locations it is unlikely for rents to move further down anymore. Average headline rents range between EUR 9-14 in Non-Central and between EUR 11-15 in Central locations. Rental premium is still proven in CBD with headline range of EUR 14-22. Current prime rent is quoted at EUR 20 which is flat on previous quarter.

• Pipeline

Some 187,000 sq m of office space is currently under construction. The forecast completion levels are 165,000 sq m by mid-year and another 22,000 sq m by mid 2011. As office demand has not picked up yet, we expect weak take-up levels in forthcoming quarters. Vacancy rates therefore will not decline until second half of the year. Rental levels are levelling out in some locations while slight decline still applies for other areas.

	Q4 2008	Q3 2009	Q4 2009
Stock (sq m)	2,108,000	2,335,000	2,400,000
Space under construction (sq m)	510,000	245,000	187,000
Existing available space (sq m)	354,000	461,700	526,200
Quarterly total leasing activity (sq m)	135,000	47,700	63,800
12-month total leasing activity (sq m)	330,300	365,600	294,400
Prime office rent (per sq m/m)	EUR 22-23	EUR 20-21	EUR 20
Prime office yield	6.75%	8.00%	8.00%

NEW SUPPLY

Completion went back in Q4 (compared to Q3) to a level of 68,100 sq m in seven buildings:

- in CBD 6,500 sq m (PDS-Divatcsarnok: 3,700 sq m and First Site: 2,800 sq m),
- in NCB South 20,900 sq m (Budawest: 14,100 sq m and Allee Corner: 6,800 sq m),
- in NCP North 8,900 sq m (Uniqa BC – this size excludes the owner occupied part of the building)
- in NCP South 31,800 sq m (Corvin Offices II.: 24,400 sq m and Ü48: 7,400 sq m)

Annual completion level of 300,200 sq m translates to a 14% growth in the office stock last year. Although 53% of this space had been pre-let or allocated in a BTS agreement, vacant stock has grown by 49% in a year (to the current 526,200 sq m). The growth rate of vacant stock has significantly exceeded that of the overall stock for the last six quarters, due to lower net absorption levels since mid-2008.

Net absorption in 2009 reached 121,000 sq m which is almost the same level as in 2008 (125,000 sq m). However, out of the annual volume, 65% was due to four BTS projects being delivered in 2009. In many office hubs occupied office stock decreased on year end 2008 with annual net absorption being negative.

TAKE-UP

Demand for office space shows slight increase in Q3 with a take-up of 34,900 and a TLA of 63,800 sq m (difference stands for renewals). In Q4 TLA had a split as follows:

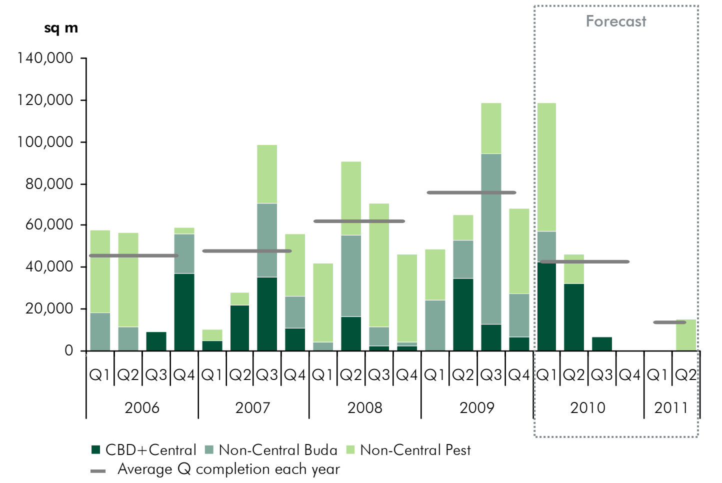
- Renewals 45% (2009 average was 41%),
- New Leases and Expansion 53% (2009 average was 41%),
- Pre-lets 2% (2009 average was 18%).

Renewals in 2009 show a significant rise on previous year (up to 41% from 20% in 2008). Out of the ten largest leasing transactions in 2009, four were renegotiations.

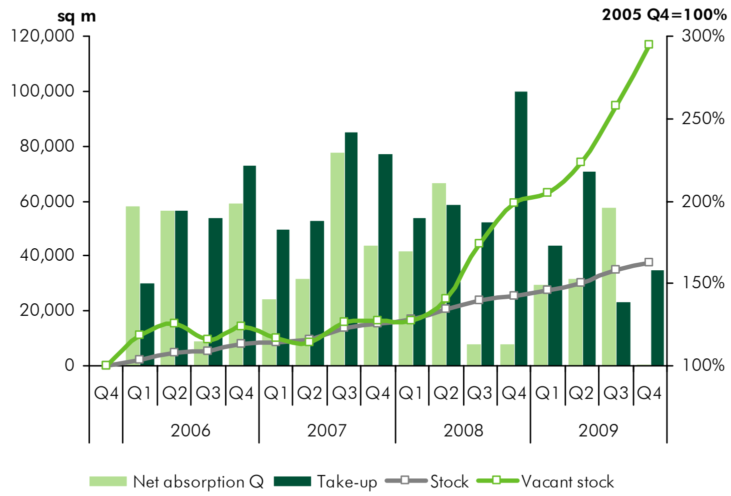
New leases and expansion of current tenants made 41% in TLA (down from 56% in 2008) with two new leases being signed among the ten largest deals.

Pre-lease had never been the driver of the office demand in Budapest, except for four quarters from mid-2008 until mid-2009 when pre-leases reached a share of 25-35% in TLA. As from Q3 2009 large pre-lease occupiers disappeared from the market, leaving a share for pre-lets at 2% in H2.

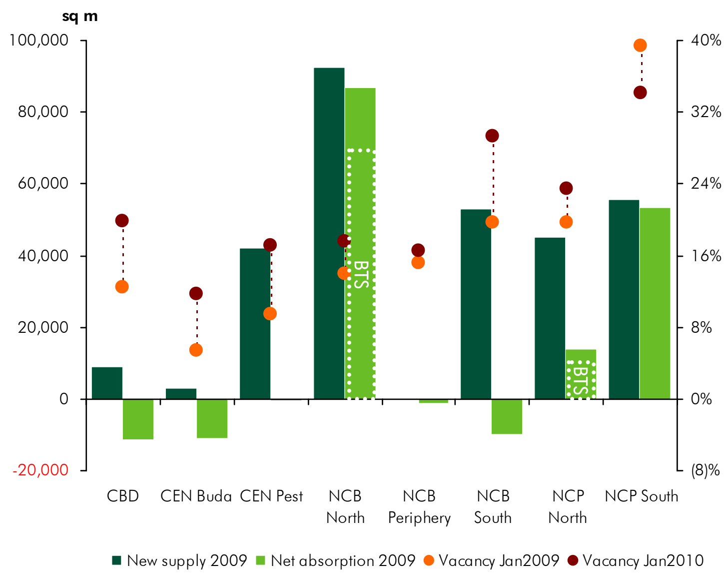
Budapest Completion and Pipeline by Quarter



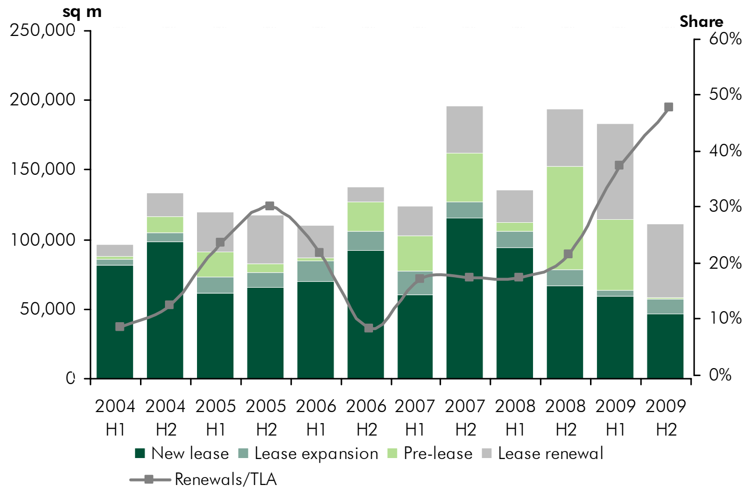
Growth of the Budapest Office Stock and Vacant Office Stock



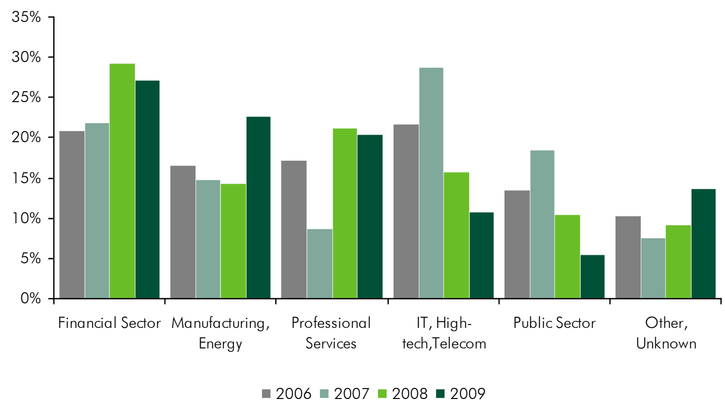
Budapest Office Absorption and Vacancy Rates by Office Hubs



Office Take-up by Type of Lease



Budapest Office Total Leasing Activity by Business Activoty



OFFICE SUBMARKETS

• CBD

Two smaller office buildings were handed over without office deals being signed. In general, demand has been very weak in CBD for offices; new leases were signed in four buildings for 1,200 sq m in total. As net absorption has been negative since the beginning of 2009, vacancy rate increased by 6.3 pps. to 20%, highest level in three years. Top of rental range being quoted in the market moved down to EUR 22 but there still has been no transaction registered at this level.

• Central Buda, Central Pest

There wasn't any new completion in Q4 in this submarket, still vacancy continued rising to 12% on Buda and 17% Pest side. Take-up reached 8,500 sq m (85% on the Pest side) with three deals being above 1,000 sq m.

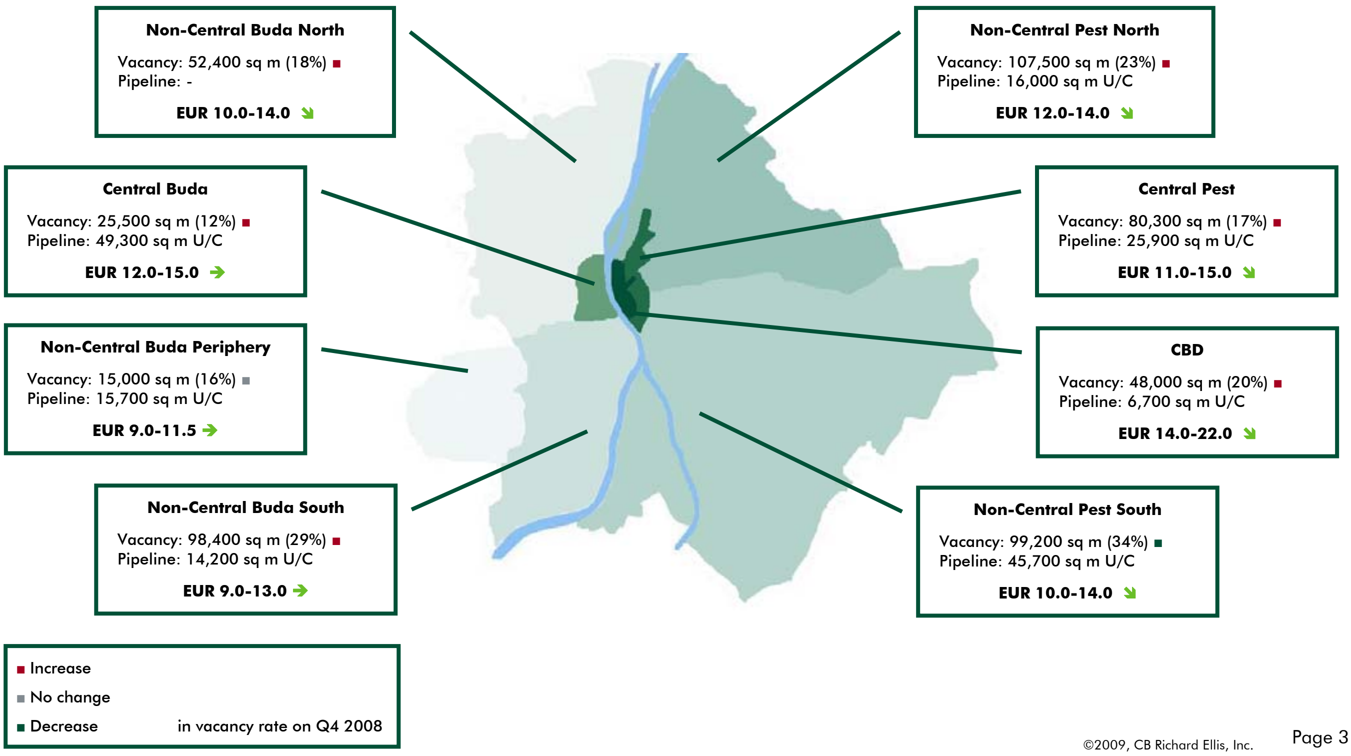
• Non-Central Pest North and South

Completion accounted for the increase in vacancy to 23% and 34% in North and South, respectively. The increase in vacant stock and vacancy rate have remained limited as demand was quite stable (compared to other locations) with a take-up level of 11,200 sq m. Some projects in NCP South went down with headline rents to EUR 9, previously seen rather in NCB South and Periphery.

• Non-Central Buda North, Periphery and South

A new completion in NCB South increased vacancy rate to 29% which is significantly above the rate in NCB North. This difference is visible in rental levels, as NCB South pricing is becoming comparable with the level in Periphery (Budaörs). Total take-up reached 10,700 sq m without any deal exceeding 1,000 sq m.

Budapest Office Hubs Overview Map



Largest Office Lease Transactions in Q4 2009

Tenant	Building	Office Hub	sq m
Getronics*	Margit Palace	CEN Buda	4,700
Celanese**	Váci 33	CEN Pest	4,300
CONFIDENTIAL	Uniqa BC	NCP North	3,600
GSK*	MOM Park	CEN Buda	2,400
Lease Plan*	Dorottya Udvar	NCB South	1,700

* Lease renewal
** Lease renewal+extension

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

TOTAL LEASING ACTIVITY – 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 (formerly gross take-up)

TAKE-UP – net office space leased or pre-leased in a given period; renegotiations (renewals) are excluded but pre-lets are included

UNDER CONSTRUCTION – office space currently being developed

NET ABSORBTION – 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 singed in previous survey period, tenants moving between existing premises or tenants leaving the office market.

BTS PROJECT – office building designed and built according to a single tenant's needs (built-to-suit) where the lessee signs for the whole building before the construction starts

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