

Budapest Offices

THIRD QUARTER 2008

" Demand maintained a relatively strong level but lease negotiations tend to become significantly longer. YTD take-up is 16% down y-o-y because of the very strong Q3 last year."

" Completion level remained high. We are aware of delays due to technical reasons in current pipeline but no project has been stopped. On the other hand, the planned pipeline has been strongly modified downwards."

" Overall Budapest vacancy started to diverge across submarkets. CBD and Central areas has been seeing declining vacancy while rates in non-central areas are on rise."

Q3 AT A GLANCE

	Y-0-Y	Q-0-Q
Completion	↓	↓
Take-up	↓	↓
Vacancy rate	↑	↑
Rents	→	→

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OFFICE STOCK

Growth in the volume of stock remained strong in Q3 with 70,300 sq m of new deliveries. Year-to-date completion is 47% higher than last year. Already launched projects are being completed according to original schedule but future pipeline will have to be revised sharply due to financial challenges.

Modern office space in Budapest currently totals ca. 2,057,000 sq m. The office stock has grown by almost 450,000 sq m for the last two years, of which 80% was completed in the Non-Central submarket. The two-year pipeline up to end Q3 2008 splits as follows:

- 317,000 sq m in the Non-Central submarket;
- 93,500 sq m in the Central submarket;
- 35,500 sq m in the CBD submarket;
- 8,850 sq m in Periphery submarket.

This shift towards the outer office areas is a clear consequence of the lack of available plots in the CBD and Central submarkets. In the inner districts currently very few new projects are under completion; the future pipeline consists mostly of refurbishments. The outer area pipeline remains strong, however, we expect a sudden cut in deliveries as from 2010.

NEW SUPPLY

Approximately 70,300 sq m of modern office space was completed in Q3 2008.

- in **CBD** East-West Business Centre has been refurbished and extended by 2,500 sq m;
- no projects were handed over this quarter in **Central** submarket;
- in **Non-Central** submarket five projects were completed – i.e. Haller Garden (32,600 sq m) and Millennium Tower II. (16,600 sq m);
- in **Periphery** the new building of Terrapark was delivered (8,850 sq m).

Q3 2008	CBD	Central	Non-Central	Periphery	All Budapest
COMPLETION (sq m)	2,500	0	58,950	8,850	70,300
TAKE-UP (sq m)	3,800	14,100	39,100	2,400	59,400
VACANCY RATE (%)	12.9%	7.8%	20.0%	14.4%	15.1%
HEADLINE RENT (EUR / sq m / month)	17.0-23.0	13.0-16.0	11.0-14.0	9.0-12.0	12.0-14.0

MAJOR OFFICE LETTINGS, Q3 2008

Tenant	Project	Size (sq m)
Morgan Stanley	Millennium Tower III	6,080
Lufthansa *	Infopark E	4,500
ELMŰ *	Capital Square	3,470
Epam Systems	Corvin Office I.	2,740
Concord	Alkotás Point	1,600

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

Demand reached 59,400 sq m in Q3 which is slightly down on Q2 (-6%). We don't foresee transactions not happening because of current financial situation but agents report longer negotiation periods needed before closing a transaction. Although demand has not visibly weakened, current year-to-date figure shows 16% decrease on previous year but be reminded Q3 2007 was an outstanding quarter with leased space above 100,000 sq m.

Take-up splits as follows in Q3:

- 42,300 sq m new deal or expansion (71%),
- 10,100 sq m pre-lets (17%),
- 6,900 sq m renewals (12%).

New deals had a smaller share in Q3 take-up than usually. Due to heavy supply extension, net absorption decreased to a level not seen since 2003.

We registered 120 deals done in Q3, of which twenty were above 1,000 sq m with the average decreased to ca. 580 sq m. Pre-lease were significant among the big deals as well. As usual, Non-Central submarket had the highest share in demand with 66%.

RENTS AND VACANCY

In Q3 some 2,000 sq m of office space was leased in prime facilities with no movement in prime rents. We see CBD appreciating with more and more projects reaching (or approaching) the prime rental level of EUR 20-25/sq m/month. On the other hand, rents are under pressure in outer areas with extensive vacant areas and massive short-term pipeline.

Budapest vacancy increased q-o-q from 12.6% to 15.1%, which is 3 vacancy points above the level at the same time last year. Average vacancy rate in Budapest has not been this high since Q4 2004. Despite the increasing average vacancy, we see submarkets diverging in availability rates.

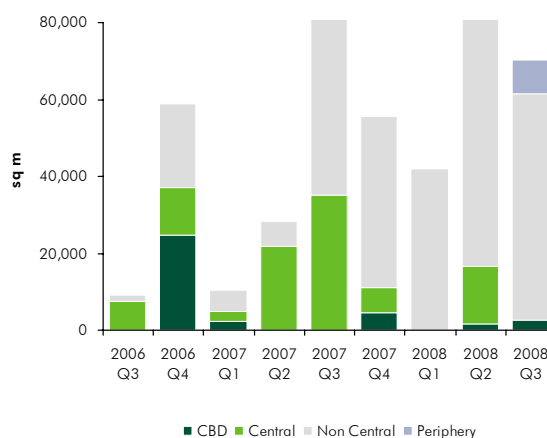
Since supply is extensive only in the outer areas, Non-Central submarket have a vacancy of 20%. Periphery vacancy shot up as well due to a new delivery. Vacancy rate in CBD has been on decline for two years already while in the Central submarket vacancy has reached an all-time minimum with 7.8%.

OUTLOOK

- The stock is expected to grow by some 70,000 sq m in Q4 (including a BTS project). Expected completion level this year will be app. 270,000 sq m which means 40% more deliveries than in 2007.
- Demand is unlikely to reach the level of last year, however, we don't expect easing activity to fall back yet. Negotiations for bigger spaces are likely to be closed in Q1 2009 first. Possible decline in economic activity will impact on demand figures as early as next year.
- Developers will face growing pressure on rents due to worsening economic situation and extensive pipeline but current rental levels do not allow too much room for further decline. Rents in CBD and Central areas are more stable due to more favourable vacancy figures.

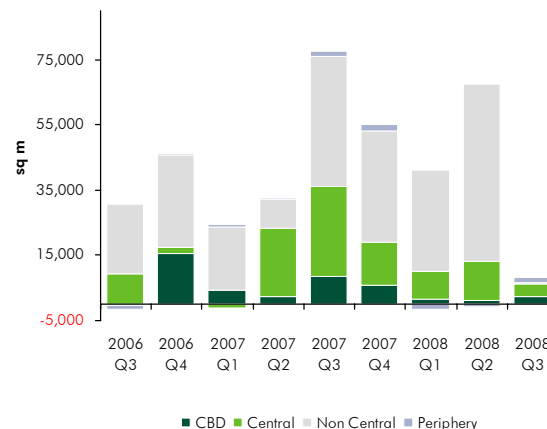


OFFICE COMPLETION BY SUBMARKETS



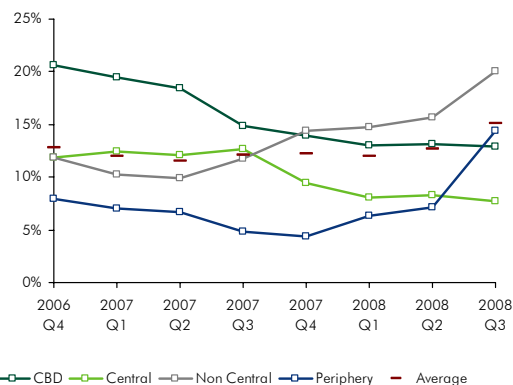
Source: BRF / CB Richard Ellis

NET ABSORPTION BY SUBMARKETS



Source: CB Richard Ellis

BUDAPEST OFFICE VACANCY BY SUBMARKETS



Source: BRF / CB Richard Ellis