

MARKETBEAT

HUNGARY OFFICE SNAPSHOT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



Q3 2011

OVERVIEW

Quarter 3 levels of leasing activity were up significantly on Q2. Activity should be attributed to the high proportion of lease renegotiations and occupiers relocating to different premises rather than expansion driven activity. As such, the absorption of space during Q3 was marginally negative which, in turn, kept the vacancy high. Despite a healthy occupier activity the double digit vacancy rate impacted on prime rents which fell to €20.00/sq.m/month in the CBD of Budapest. Elsewhere rents held firm, in the range of €11.00-€15.50/sq.m/month on the back of the incentives that continue to be offered by landlords.

OCCUPIER FOCUS

In Budapest lease contracts for nearly 114,000 sq.m space were finalised during Q3, making it the best performing quarter of the year so far. The majority of satisfied requirements were for occupiers within the professional business sector (42% of all leases). The public sector also recorded healthy levels of activity, accounting for 14% of the total with a number of state organisations consolidating their operations and moving to cheaper, more cost efficient properties or renegotiating their leases on better terms. The largest public sector deal was a 12,000 sq.m renewal in the Central Buda submarket.

Vacancy remains high, hovering around 25% as at the end of September. Nonetheless, further increases in the vacancy rate are unlikely in the light of the current development pipeline which includes only a handful of projects. Furthermore, half of the space within these schemes is already pre-let and as such should positively impact on vacancy.

INVESTMENT FOCUS

Office space worth €124 million exchanged hands in the third quarter bringing the year's total to €204 million, a significant rise on the 2010 total. This further supports the trend that good quality, well-let offices continue to be closely monitored by investors, however, such assets remain in short supply. Prime yields held firm across all submarkets of the capital.

OUTLOOK

Activity in the investment market is expected to slow but could see some notable deals go through in Q4, resulting in a hardening of prime yields by the end of the year. On the occupier side, activity will remain largely driven by consolidation and renewals and with the limited speculative pipeline, some of the overhang of space will be absorbed. Prime rents are expected to remain stable with limited growth prospects in the short to medium terms.

MARKET OUTLOOK

PRIME RENTS:	Prime rents remain unchanged with attractive incentives still offered.	➔
PRIME YIELDS:	Improving market sentiment could see prime values harden by year end.	➔
SUPPLY:	New supply will be limited in the final quarter of 2011 and in 2012.	➔
DEMAND:	Slower economic growth will hold back occupier activity.	➔

PRIME OFFICE RENTS – Sep 2011

	€ sq.m/mth	Prime Rent € sq.m/yr	US\$ sq.ft/yr	Compound(b.a) % Growth 5yr	1yr
Budapest					
CBD	20.00	240	29.9	1.6	0.0
Central Buda	15.50	186	23.2	-0.6	0.0
Váci Corridor	14.25	171	21.3	-0.3	0.0
Periphery	11.00	132	16.5	-1.7	0.0

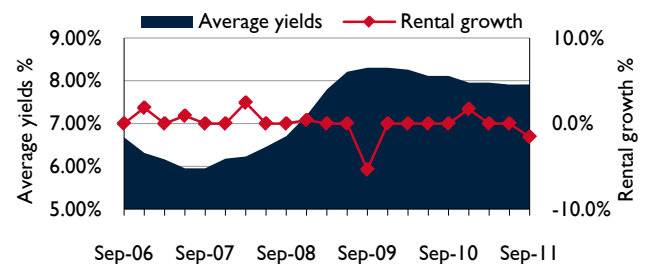
PRIME OFFICE YIELDS (Gross) – Sep 2011

	Current Quarter	Prime Yield (%)		10 year	
		Last Quarter	Last Year	High	Low
Budapest					
CBD	7.25	7.25	7.50	9.00	5.50
Central Buda	7.50	7.50	7.75	9.00	5.75
Váci Corridor*	8.25	8.50	8.50	9.50	6.00
Periphery	9.00	9.00	9.25	10.00	7.00

NOTES:
* 9 yr record

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

RECENT PERFORMANCE



Source: Cushman & Wakefield LLP. 2011

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