MINISTRY
FOR NATIONAL ECONOMY

Vacancy rate of Budapest's office market dropped to a seven-year low 13.5 percent

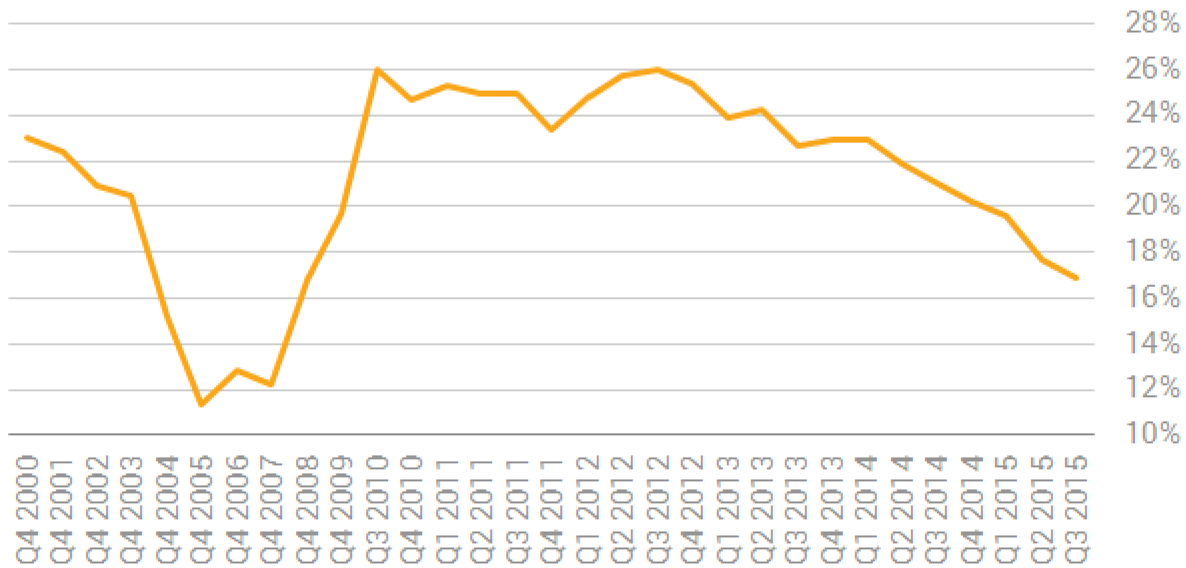
In the third quarter of 2015, two office development projects were completed in Budapest: building "A" of the Erzsébet office complex and the second block of the owner-occupied Bosch Centre. These have added as a whole 27 800sqm to the existing volume of modern office space in Budapest, which now totals 662 300sqm of owner-occupied and 2 615 600sqm of rented office space. The vacancy rate continued to decrease and reached by 13.5 percent by the end of the third quarter. This has been the lowest figure in seven years, following a drop of 3.4 percentage points year-on-year and 0.7 percentage points quarter-on-quarter.

The Budapest office market showed signs of recovery already last year, but in 2015 Hungary's capital city has turned into a clearly attractive destination, both from the aspect of investors and developers. Recent economic recovery has massively improved Budapest's image and increased leasee activity: the volume of rent contracts reached a new high in the second quarter of 2015 and the net absorption of available space is currently 40 percent higher than last year. However, this trend has until now failed to bring significantly higher rent prices. In the first half of 2015, the price of office space per square metre averaged EUR 21 in Budapest. The fact that the vacancy rate – unlike in Poland and the Czech Republic – has been falling and the indicator has recently dropped below that of Prague's, one of the main regional rivals of Budapest, shows the special status of Hungary's capital city. These developments as well as the relatively low number of speculative development projects signals that rent prices are set to rise in the medium term.

As far as city district differences are concerned, the vacancy rate is the lowest in Southern Buda, with only 7.9 percent. The currently highest figure of 29.6 percent is in the periphery surrounding Budapest. Demand in the third quarter was 99 600sqm, which – albeit it is half of the record high demand in the previous quarter – is still on a par with the third-quarter averages of the past five years. This quarter was characterized by a high number of renewals as well as new contracts. The net volume of rental contracts (excluding the prolongation of existing contracts) accounted for 46 percent of total, below the figure of the previous quarter. In the observed period, the volume of renewals, new contracts and expanded contracts was 54 percent, 31 percent and 15 percent, respectively.

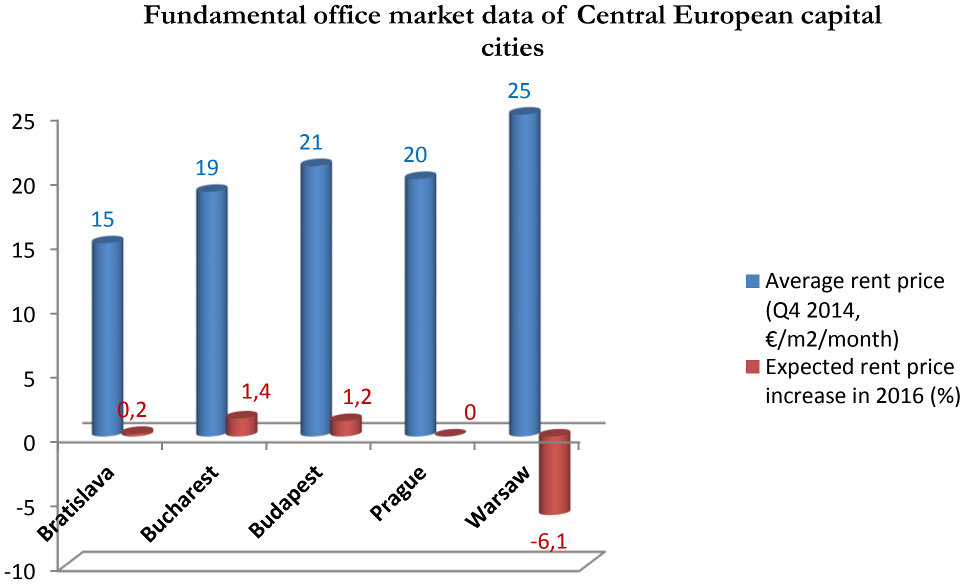
The Budapest Real Estate Consultants Coordination Forum (BIEF), a coordination platform of property consultancies in Budapest, registered 180 rental transactions in the third quarter, with rented space averaging 553sqm. Four contracts have been concluded for a rented area of more than 5000sqm each. The volume of net absorption was 47 600sqm in the observed quarter. 60 percent of that space was rented in the non-central Pest region, with two fully-occupied buildings.

Vacancy rates of rented office market in Budapest since 2001
(Q3 2015: 16.8 percent)



Source: Budapest Research Forum (BRF), Portfolio

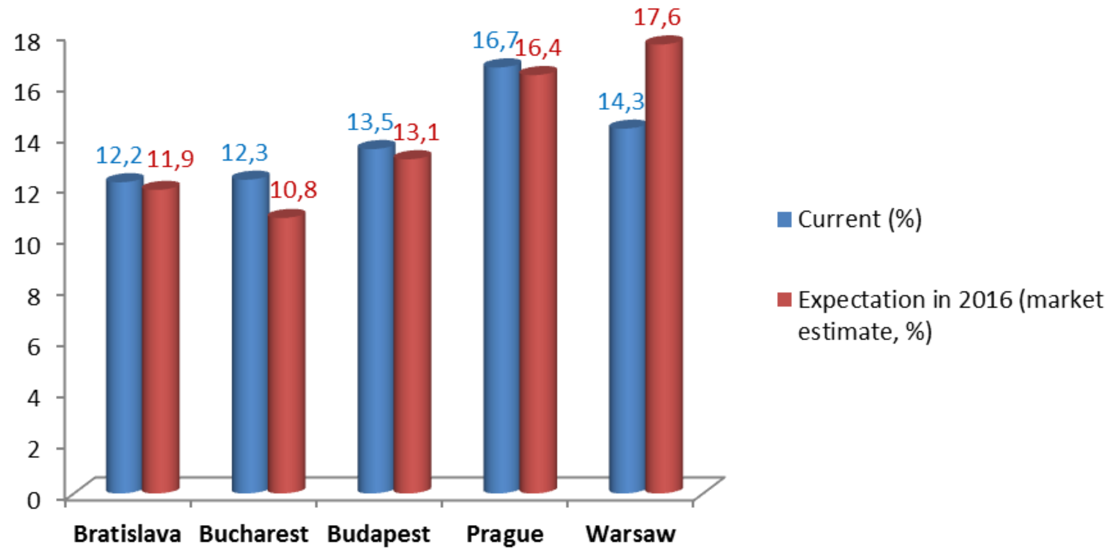
According to a study by real estate consultancy firm Cushman&Wakefield, the increasingly favourable macro-economic outlook is boosting leasing activity in the Budapest office market. The consultancy firm is expecting this process to continue in the second half of the year, while the rent price growth trend is also seen to remain in place. The report also noted that as a result of the modest volume of development projects in the past years, vacancies have significantly decreased in Budapest (to 13.5 percent concerning the total stock of office space), and in terms of this indicator Budapest has even left behind Prague, the regional arch-rival. Data show that demand has been steadily higher than supply, therefore in the second half of the year vacancies are expected to decrease and absorption to increase further. As a consequence of these factors, Cushman&Wakefield are anticipating more and more previously shelved office development projects to be dusted off. However, these will take time to be realized and move the market.



Source: Cushman & Wakefield

In the summer of 2015, a large-scale transaction took place on the Budapest real estate market, which brought about a major breakthrough, as an AEW Europe-managed fund sold a three-unit portfolio to an international consortium. While investor activity in 2014 was driven "only" by the activities of local funds, the joint deal by Morgan Stanley Real Estate Investing, WING and CC Real is signalling to foreign investors that Hungary is an attractive business and investment destination also on a global scale. Although the portfolio also included a shopping mall, the most popular real estate products continue to be office complexes in Budapest.

Office market vacancy rates of Central European capital cities



Source: Cushman & Wakefield

Office market data of Warsaw clearly indicate massive overcapacities, therefore both this year and next the deceleration of development projects, falling rent prices and a substantial increase of vacancies can be expected on the Polish market. A similar trend can be observed in Prague, where – albeit to a lesser extent – rent prices are set to stagnate (below the Budapest price level). Besides this, the volume of office space currently under development is far larger in Prague than in Budapest, the capital city of Czech Republic will also face the risk of overcapacity as early as next year. The Budapest office market, which in size is similar to that of these two cities – being between 3 and 4 million square metres, whereas Bucharest's market is significantly smaller and that of Bratislava is only one-quarter of the others – still has larger growth potential: there is extensive demand by both international and domestic companies for modern and high quality offices in prime locations. Currently, there is a substantial shortage of these on the Budapest market, especially compact, large-area offices are concerned.

The steady decrease of vacancy rates, rising rent prices and subsequent new development projects have already resulted in a remarkable upturn on the Budapest office market this year, but in the coming years and in the medium term the city may be one of the region's major office market development destinations.