Office Agency

2017 H1 market summary and outlook

- Even though the total leasing volume shows a slight setback compared with 2016 H1 figures, the office market remained active both in terms of leasing and development activity in 2017 H1.
- The absorption in the first half of the year was 17,000 sq m, while the net take-up decreased by 3% to 115,000 sq m.
- The vacancy rate stood at 8.6% in 2017 H1, which is 1.7% lower compared with 2016 Q2 data and the lowest rate since post crisis. As a result rents are under an upward pressure, but mainly at prime locations.
- Tenants from the SSC/BPO sector remained the main drivers of the office market representing one fifth of all transactions and occupying the quarter of the „A" class stock. SSCs have notable activity in Budapest as well as in secondary cities.
- Additionally, Colliers experienced increasing activity of the state related occupiers and IT companies.
- At the end of 2017 H1, the total stock in Budapest reached 3.3 million sq m. The level of construction activity is expected to result in 76,430 sq m new supply in 2017, which is 20.6% lower compared to last year, however the significant increase in supply is expected for 2018, when 316,000 sq m will be delivered to the market.

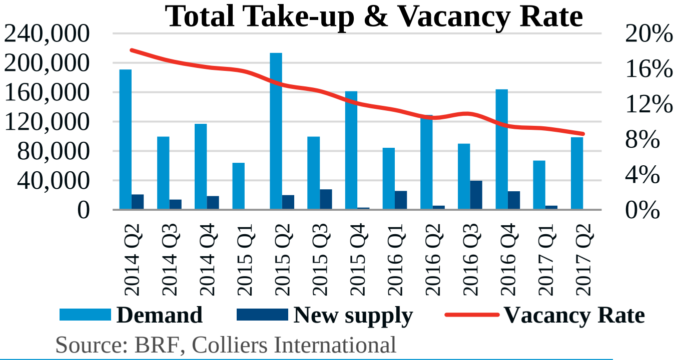
Handover in 2017 H1

Building Name	Total Size	Submarket
Graphisoft Park SAP building	5,500 sq m	North Buda

Source: BRF, Colliers International

Leasing activity

- The gross take-up was 166,000 sq m in H1 2017, which is 22% lower than in H1 2016. In the first half of this year, there were two renewals and one new transaction which were above 5,000 sq m. This year new deals stood for 40% of the total leasing volume, while last year renewals were leading the transactions. This year, they represent the second largest share with 30%. Pre-leases stood at 15%, which is a significant increase compared with last year's 3% in the same period. These new deals have a great affect on the net take-up reaching 116,000 sq m this half a year.
- This year Váci Corridor had the highest share in the total leasing activity. Colliers International represented Sony in its relocation (1,400 sq m) in H1 2017. 29% of all transactions were signed in the Váci Corridor compared with 30% in the same period last year. This was followed by South Buda (19%) and Central Buda (15%).
- The majority of companies with large pre-lease agreements are consolidating and optimizing their operations, hence usually they leave behind more vacant office area at older A class and B class buildings, than what they are signing pre-leases for.
- Among these vacated buildings those are expected to succeed, which have a prime location and where the landlords are ready to invest into significant renovation.



Source: BRF, Colliers International

Vacancy rate, rent and development pipeline

- The market is in a growing phase since 2012, which has accelerated in 2014. The gradually decreasing vacancy rate is the best evidence for that, with declining to 7.8% by Q2 2017 since its peak in 2012, when it stood at 21%.
- Decreasing vacancy rate resulted into less choice for tenants, especially in the A class segment. Currently, it is difficult to find offices above 1000 sq m , due to lack of contiguous space and it is expected to remain so, until the new large projects will be handed over in 2018 and in 2019.
- Average rent level in prime locations have increased approximately by 5-10% since last year. Similarly to 2016, landlords are less willing to provide incentives than during the crisis period such as rent free periods, fit-out and other contributions.
- In H1 2017, almost one third of the total net take up took place in Váci Corridor (28%) followed by South Buda (16%) and North Buda (14%).
- The total pipeline until the end of 2019 is approximately 464,000 sq m , 70% of which is expected to be handed over in 2018 with the largest share on Váci Corriodor.

Projects in pipeline (20,000 sq m +)

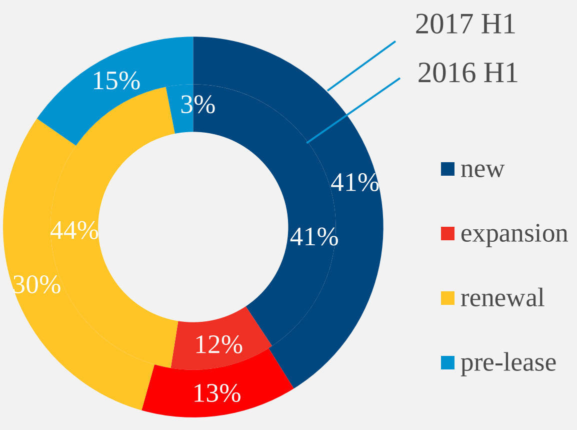
Developer	Building Name	Handover	Size (sq m)
Wing	Ericcson HQ	2017 Q4	24,000
Wing	Telekom HQ	2018 Q4	59,000
Skanska	Mill Park	2018 Q3	36,000
Futureal	Corvin Technology	2018 Q3	27,000
Horizon	Promenade Gardens	2018 Q2	26,000
GTC	White House	2018 Q2	24,000
Green Urban	Hillside Offices	2018 Q3	21,000
Futureal	Advance tower 1-2.	2018 Q4	20,000
Infogroup	Bartók Udvar 2	2018 Q4	24,000
Futureal	Budapest One	2019 Q1	27,000
Exchange Palace	Tippin Corporation	2019 Q2	25,700
HB Reavis	Agora	2019 Q2	67,000

Source: BRF, Colliers International

2017 Outlook

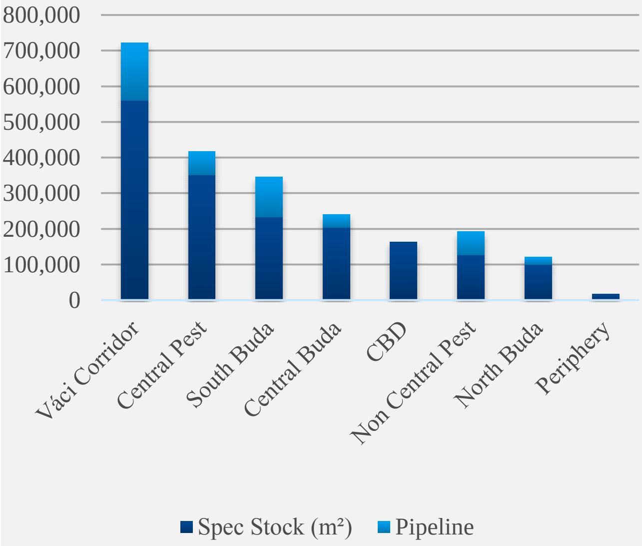
- We expect that take-up will continue to remain solid in 2017 as well and thereby rents will further increase until 2018, but not significantly.
- There are number of new speculative developments in the pipeline, but the overwhelming majority of these will be handed over only in 2018.
- As a consequence of the slow delivery of the new supply and solid demand, net take up is expected to outpace new deliveries until early 2018, which suggest further decrease in vacancy rate in the class A segment in 2017.
- The market is expected to remain landlord driven over the existing stock, which may result to higher headline rents and less incentives offered for tenants in the class „A" segment.

Type of transactions 2016 H1 vs 2017 H1



Source: BRF, Colliers International

Distribution of class „A" stock



Source: BRF, Colliers International

Average Asking Rent (EUR/sq m/month)

Source: BRF, Colliers International