Office Agency

2016 market summary and outlook

- Even though the total leasing volume shows a slight setback compared with 2015, the office market remained active both in terms of leasing and development activity in 2016. The annual net absorption was 16.4% lower compared with that of last year, but still almost reached 150,000 m2.
- The vacancy rate stood at 9.5%, which is 2.6% lower compared with 2015 Q4 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 with 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 the year, the total stock in Budapest reached 3.3 million m2. The level of construction activity resulted in 96,270 m2 new supply in 2016, which is almost doubled (+89%) compared with last year.
- The new supply in 2017 is expected to be similar to this year with 91,700 m2. The significant increase in supply is expected for 2018, when 211,000 m2 is expected to come to the market.

Handovers in 2016

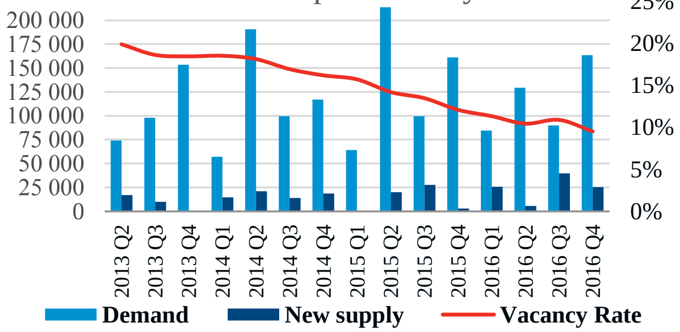
Building Name	Total Size	Submarket
Vaci Greens B	25,604 m^2	Váci Corridor
Váci1	5,700 m^2	CBD
V17	12,350 m^2	Váci Corridor
Nordic Light	24,900 m^2	Váci Corridor
Buda Loft	2,320 m^2	North Buda
Corvin 4	25,400 m^2	Central Pest

Source: BRF, Colliers International

Leasing activity

- The gross take-up was 467,000 m2 in 2016, which is 9% lower than in 2015. This year there were two major pre-lease deals and four renewals, which were above 10,000 m2. Colliers International closed the following major pre-lease transactions in 2016: IT Services Hungary (18,000 m2), Celanese (4,100 m2) and Harman (2,100 m2).
- This year renewals stood for 40% of the total leasing volume, while the second largest share was now attributable to new leases with 36%. Pre-leases stood at 12.4%, which is significant setback compared with last year's 23%.
- This year Váci Corridor had the highest share in the total leasing activity, as 34.7% of all transactions were signed here compared with 20.6% last year. This was followed by Central Pest (25.2%) and Central Buda (10.2%).
- 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-lease 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.

Total Take-up & Vacancy rate



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 9.5% by Q4 2016 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 m^2, due to lack of contiguous space and it is expected to remain so, until the new large projects will come into the market in 2018 and in 2019.
- Average rent level in prime locations has increased approximately with 5-10% since last year. Similarly to 2015, landlords are less willing to provide incentives, then during the crisis period such as rent free periods, fit-out and other contributions.
- In 2016, almost one third of the total net take up took place in Váci Corridor (32%) followed by Central Pest (30%) and Central Buda (9%).
- Also in terms of the pipeline Váci Corridor has the largest share, as one third of the new developments are expected to be delivered to this submarket.
- The total pipeline until the end of 2018 is approximately 300,000 m2, 70% of which is expected to be handed over in 2018.

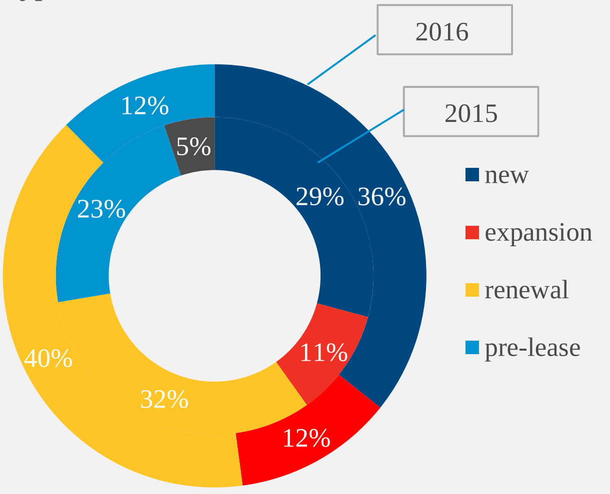
Projects in pipeline (20,000 m2+)

Developer	Building Name	Handover	Size (m^2)
Wing	Telekom HQ	2018 H2	55,000
Skanska	Mill Park	2018 Q3	35,500
Futureal	Corvin Technology	2018 Q3	26,000
Horizon	Promenade Gardens	2018 Q2	25,000
Wing	Ericcson headquarters	2017 Q4	24,000
GTC	White House	2018 Q1	21,500
Property Market	Hillside Offices	2018 Q3	21,000

2017 Outlook

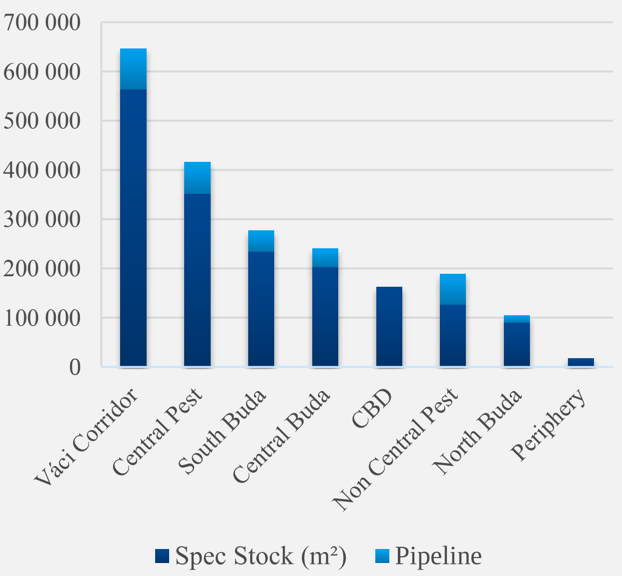
- We expect that take-up will continue to remain solid in 2017 as well and thereby rents will further increase until 2018, but not significantly.
- There are number of new speculative developments in the pipeline, but the overwhelming majority of these will be handed over only in 2018.
- As a consequence 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 vs 2015



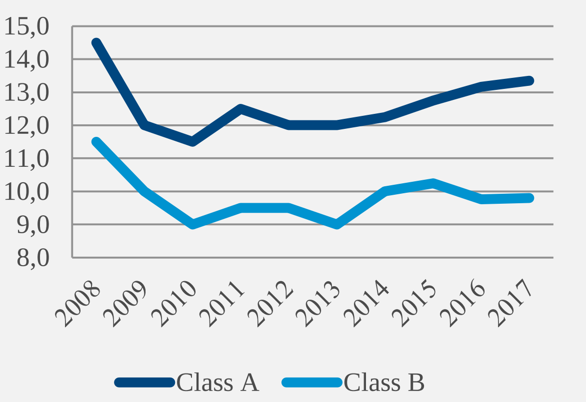
Source: BRF, Colliers International

Distribution of Class A stock



Source: BRF, Colliers International

Average Asking Rent (EUR/m2/month)



Source: BRF, Colliers International