HUNGARY

Industrial Market Snapshot

Second Quarter | 2018

CUSHMAN & WAKEFIELD

MARKET INDICATORS

Market Outlook

Prime Rents:	Upwards pressure on rents for both existing and BTS units	
Prime Yields:	Yields could sharpen further during 2018 due to increased competition for the best assets	
Supply:	The very limited availability and pre-leased pipeline for 2018 creates a window of opportunity for speculative building	
Demand:	Occupier demand should accelerate during 2018	

Prime Industrial Rents – June 2018

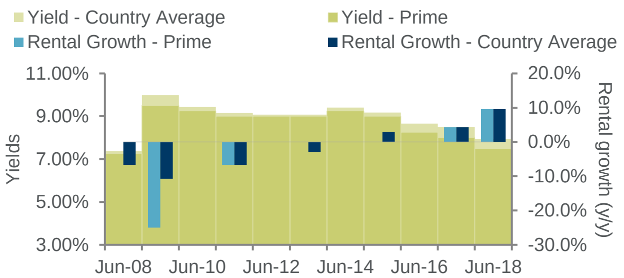
LOGISTICS LOCATIONS	€ SQ.M MTH	€ SQ.M YR	US$ SQ.FT YR	GROWTH % 1YR	5YR CAGR
Budapest	4.00	48.0	5.22	9.6	3.3
Debrecen	3.50	42.0	4.57	0.0	0.0
Miskolc	3.50	42.0	4.57	0.0	0.0
Győr	4.00	48.0	5.22	14.3	2.7
Székesfehérvár	3.50	42.0	4.57	0.0	0.0

Prime Industrial Yields – June 2018

LOGISTICS LOCATION (FIGURES ARE GROSS, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR HIGH	LOW
Budapest	7.50	7.50	8.00	9.50	7.50
Debrecen	9.00	9.25	9.75	12.00	8.00
Miskolc	9.25	9.50	9.75	12.00	8.00
Győr	8.50	8.75	9.25	10.00	7.75
Székesfehérvár	8.75	9.00	9.50	10.00	7.50

With respect to the yield data provided, in light of 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



Overview

Following a growth of 5.5% in 2017, Hungary's industrial output remains strong this year. According to the CSO, in the first four months of 2018 figures indicate a y-o-y growth of 3.8%. The GKI sentiment index reached new highs in June as business confidence rose in the services, trade and construction sectors. Yet, Q2 occupier demand for modern industrial space fell on the previous quarter and was driven by renewal transactions on account of record low availability.

Occupier focus

In and around Budapest approximately 60,000 sq. m of industrial space was let, with the manufacturing sector being the most active in Q2. Noteworthy is Sauflon's 30,000 sq. m renewal and expansion lease signed in Prologis Gyál, which largely contributed to the total.

One BTS scheme extending to 12,800 sq. m of new space were handed over during the quarter. New developments are still subject to pre-lease agreements and 95% of the H2 pipeline has lease commitments in place. The lack of available warehouse space around Budapest is strengthening landlords' negotiating positions. This resulted in a 3.9% q-o-q growth of headline rents in and around Budapest.

Investment focus

Both international and domestic interest for the Hungarian market remained strong in Q2. The industrial investment market recorded healthy activity levels, supported by the acquisition of South Base Dunaharaszti and Huncargo Sopron. Investors have diverted their attention to sale and leaseback options and stable countryside projects, and yields hardened 25 bps over the quarter in most countryside locations. Further yield compression is expected in Budapest due to increased competition for the best assets, which are scarce.

Outlook

The current demand/supply imbalance is supporting rental growth that is expected to continue, albeit at a slower pace. Moving forward take-up in H2 is expected to improve if developers are beginning to assess speculative build options yet the cost of construction and related services remain a limiting factor.

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