HUNGARY

Industrial Market Snapshot

First Quarter | 2017

Overview

The Hungarian industrial market continued to enjoy healthy activity levels over the first quarter. GDP growth, which is expected to accelerate in 2017, together with continued monetary easing, will strengthen positive business sentiment. Labour shortages, however are putting pressure on the Budapest market in particular.

Occupier focus

As in previous quarters, the automotive sector, along with occupiers from the logistics and the dynamically expanding e-commerce segments, are the main drivers of demand.

Two schemes totaling in excess of 40,300 sq.m of new industrial space were handed over during Q1. Due to the high share of pre-leased space in these units and build-to-suit remaining more or less the only viable way of entering the market, supply still cannot match the requirements of new entrants and expansions. Low vacancy rates and increasing construction costs have started increasing upwards pressure on rents; however, rental levels remained stable in this quarter.

Investment focus

The industrial investment market recorded healthy activity levels in Q1, supported by the acquisition of Dél Pesti Üzleti Park by Diófa and M7’s acquisition of Aerozone. Whilst yields remained stable over the quarter, yield hardening is expected as 2017 progresses due to increased competition for the best assets, which are scarce. This may force investors to divert their attention to stable countryside projects.

Outlook

There is around 80,000 sq.m of new space scheduled to enter the market by the end of this year, which should bring some temporary relief to the occupier market.

Developers are beginning to assess speculative build options, but this is from a low base, and any schemes are expected to be absorbed with relative ease. Development sites are highly sought after with all ongoing logistics developments remaining Budapest focused. Manufacturing industries however, are focusing on smaller countryside regions.

MARKET INDICATORS

Market Outlook

Prime Rents:	Very limited available warehouse space is putting upwards pressure on rents for the best units.	◥
Prime Yields:	Yields could sharpen further as investor demand solidifies.	◢
Supply:	Existing new supply is practically fully pre-leased for 2017. It is expected that this will be followed by speculative developments breaking ground.	◥
Demand:	Pre-lease agreements and BTS activity is likely to accelerate in 2017 from tenants wishing to secure space for market entrance and expansions.	◥

Prime Industrial Rents – March 2017

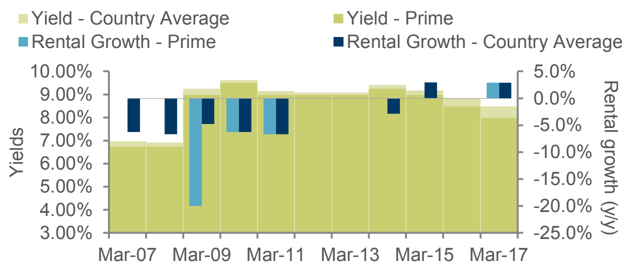
LOGISTICS LOCATION	€ SQ.M MTH	€ SQ.M YR	US$ SQ.FT YR	GROWTH % 1YR	5YR CAGR
Budapest	3.60	43.2	4.37	2.9	0.6
Debrecen	3.50	42.0	4.25	0.0	0.0
Miskolc	3.50	42.0	4.25	0.0	0.0
Győr	3.50	42.0	4.25	0.0	0.0
Székesfehérvár	3.50	42.0	4.25	0.0	0.0

Prime Industrial Yields – March 2017

LOGISTICS LOCATION (FIGURES ARE GROSS, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR HIGH	LOW
Budapest	8.00	8.00	8.50	9.50	6.75
Debrecen	9.75	9.75	9.75	12.00	7.50
Miskolc	9.75	9.75	9.75	12.00	7.50
Győr	9.25	9.25	9.25	10.00	7.00
Székesfehérvár	9.50	9.50	9.50	10.00	7.00

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



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