

# HUNGARY

## Country Snapshots

Fourth quarter | 2017

Please click on the appropriate sector  
to view

**Offices**  
**Retail**  
**Industrial**

**About & Contacts**



## MARKET INDICATORS

### Market Outlook

|               |  |   |
|---------------|--|---|
| Prime Rents:  | Headline rents continue to harden and increase for Grade A product as availability continues to diminish.                                | ▶ |
| Prime Yields: | The interest from regional and local funds remains strong. It is likely that prime yields are to strengthen over the following quarters. | ▲ |
| Supply:       | Vacancy to fall slightly as new space in the 2017 pipeline is circa 60% absorbed.  | ▶ |
| Demand:       | Investor and occupier demand are anticipated to remain healthy over 2017.  | ▶ |

### Prime Office rents – December 2017

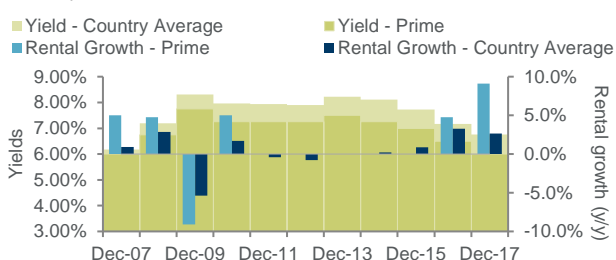
| LOCATION                 | €        | €       | US\$     | GROWTH % |          |
|--------------------------|----------|---------|----------|----------|----------|
|                          | SQ.M MTH | SQ.M YR | SQ.FT YR | 1YR      | 5YR CAGR |
| Budapest (CBD)           | 24.00    | 288     | 32.1     | 9.1      | 2.7      |
| Budapest (Central Buda)  | 16.00    | 192     | 21.4     | 0.0      | 1.3      |
| Budapest (Váci Corridor) | 15.25    | 183     | 20.4     | 0.0      | 1.4      |
| Budapest (Periphery)     | 10.00    | 120     | 13.4     | 0.0      | 0.0      |

### Prime Office yields – December 2017

| LOCATION<br>(FIGURES ARE GROSS, %) | CURRENT | LAST | LAST | 10 YEAR |      |
|------------------------------------|---------|------|------|---------|------|
|                                    | Q       | Q    | Y    | HIGH    | LOW  |
| Budapest (CBD)                     | 6.00    | 6.15 | 6.50 | 7.75    | 6.00 |
| Budapest (Central Buda)            | 6.50    | 6.75 | 7.00 | 8.00    | 5.75 |
| Budapest (Váci Corridor)           | 6.50    | 6.75 | 6.75 | 8.50    | 6.25 |
| Budapest (Periphery)               | 8.50    | 8.50 | 8.75 | 9.50    | 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



## Overview

The Hungarian economy continues to improve. Falling unemployment and strong GDP growth are supporting a healthy performance in the office market during 2017. Tenants committed to nearly 475,000 sq m of office space, reflecting a slight gain on 2016's already record strong performance. Vacancy continued to fall further to a record low of 7.5%.

## Occupier focus

In Q4 2017, occupier demand reached around 144,000 sq m in Budapest. Net take-up represented a share of 64% of the total demand and renewals accounted for a share of 32%. The Váci Corridor continued to dominate the figures enjoying the highest share of take-up with 42,000 sq m of office space transacted.

Four new developments including one BTS scheme for Ericsson were delivered in Q4 2017. Completions extended to 79,900 sq m in 2017, the second highest level since 2011, demonstrating developers' trust in the Budapest office market.

Headline rents increased further this quarter, with tenant incentives continuing to shorten, which in turn is increasing net effective rents. The market is still Landlord favourable.

## Investment focus

The fourth quarter of 2017 saw €145m invested into the office sector, with Budapest being the focus. The largest deal was OTP RE Fund's purchase of BSR Center from GLL RE. Furthermore, MCAP Global Finance (UK) LLP, the London subsidiary of the New York-based global investment manager Marathon Asset Management entered the Budapest office market with a purchase of the Népliget Center from GLL RE.

Yields hardened slightly over the quarter, with the benchmark standing at 6.0% for prime CBD office schemes. As both investor appetite for prime assets and the pipeline of deals remains healthy, prospects are for an active 2018.

## Outlook

The outlook for the office market is positive with 253,000 sq m of new office space in the pipeline for 2018. Whilst 60% of this is linked to pre-leases; speculative development shows improvement from last year. Labour shortages and increasing construction costs, however, are putting pressure on the development market.

# HUNGARY Office Market Snapshot

Fourth Quarter | 2017



| LOCATION                    | BUILT STOCK<br>(SQ.M) | AVAILABILITY<br>(SQ.M) | VACANCY RATE<br>(%) | TAKE-UP<br>(SQ.M) | TAKE-UP YTD<br>(SQ.M) | UNDER CONSTRUCTION<br>(SQ.M) |
|-----------------------------|-----------------------|------------------------|---------------------|-------------------|-----------------------|------------------------------|
| Budapest (CBD)              | 353 853               | 19 535                 | 5.5%                | 8 829             | 42 896                | 12 500                       |
| Budapest (Central Pest)     | 586 230               | 43 876                 | 7.5%                | 10 155            | 45 453                | 65 700                       |
| Budapest (Central Buda)     | 404 646               | 16 821                 | 4.2%                | 32 732            | 71 150                | 40 900                       |
| Budapest (Non-Central Pest) | 423 584               | 28 099                 | 6.6%                | 36 507            | 68 698                | 65 700                       |
| Budapest (North Buda)       | 317 627               | 26 718                 | 8.4%                | 5 201             | 33 720                | 18 900                       |
| Budapest (South Buda)       | 383 545               | 12 740                 | 3.3%                | 5 957             | 90 374                | 53 500                       |
| Budapest (Váci Corridor)    | 828 425               | 71 254                 | 8.6%                | 42 210            | 114 453               | 150 400                      |
| Budapest (Periphery)        | 117 638               | 37 825                 | 32.2%               | 2 773             | 8 325                 | 15 000                       |
| <b>Budapest (Overall)</b>   | <b>3 415 548</b>      | <b>256 868</b>         | <b>7.5%</b>         | <b>144 364</b>    | <b>475 069</b>        | <b>422 600</b>               |

Source: Cushman & Wakefield

## Key Occupier Transactions

| PROPERTY                  | SUBMARKET        | TENANT                | SIZE<br>(SQ.M) | TRANSACTION TYPE |
|---------------------------|------------------|-----------------------|----------------|------------------|
| HillSide Offices          | Central Buda     | Fundamenta            | 10 234         | Pre-lease        |
| Promenade Gardens         | Váci Corridor    | Financial sector      | 8 000          | Pre-lease        |
| Kinnarps                  | Váci Corridor    | Rail Cargo            | 8 000          | Renewal          |
| Twin Office Center        | Non Central Pest | Public sector         | 7 214          | Renewal          |
| Skylight City             | Non Central Pest | Electronics sector    | 5 978          | New              |
| Skylight City             | Non Central Pest | Alza.hu               | 5 225          | New              |
| Krisztina Palace          | Central Buda     | SSC sector            | 4 338          | Renewal          |
| Népliget Center A         | Non Central Pest | Ericsson              | 3 352          | Renewal          |
| Advance Tower Phase I     | Váci Corridor    | KPMG                  | 3 185          | Pre-lease        |
| Advance Tower Phase II    | Váci Corridor    | KPMG                  | 2 976          | Pre-lease        |
| East-West Business Center | CBD              | Financial institution | 2 932          | Renewal          |

Source: Cushman & Wakefield

## Key Investment Transactions

| PROPERTY               | SUBMARKET        | SELLER / BUYER              | YIELD | PRICE<br>€ MILLIONS |
|------------------------|------------------|-----------------------------|-------|---------------------|
| BSR Center             | Váci Corridor    | GLL RE / OTP RE Fund        | n/a   | 40.0                |
| The Quadrum            | Periphery        | White Star RE / OTP RE Fund | n/a   | 5.0 *               |
| Népliget Center        | Non Central Pest | GLL RE / Marathon           | n/a   | 32.0                |
| Ausztría Ház           | CBD              | List Group / Private GRB    | n/a   | 4.9                 |
| Ex K&H building Vigadó | CBD              | BIF/Private ISR             | n/a   | 20.0                |

Source: Cushman & Wakefield, Real Capital Analytics, \* E. portfolio deal

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# HUNGARY Retail Market Snapshot

Fourth Quarter | 2017



## MARKET INDICATORS

### Market Outlook

- Prime Rents: Upward trend on prime high street and shopping centre markets and stable in other retail segments ▶
- Prime Yields: Further hardening in prime yields is anticipated across all sectors as activity picks up. ▶
- Supply: Limited new supply in the pipeline over the medium term. ▶
- Demand: Strong occupier and investor demand for prime retail locations is set to persist. ▶

### Prime Retail Rents - December 2017

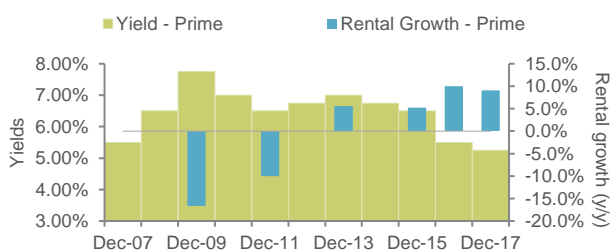
| HIGH STREET SHOPS                    | €           |            | US\$        | GROWTH % |             |
|--------------------------------------|-------------|------------|-------------|----------|-------------|
|                                      | SQ.M<br>MTH | SQ.M<br>YR | SQ.FT<br>YR | 1YR      | 5YR<br>CAGR |
| Budapest (Váci utca)                 | 120         | 1,440      | 161         | 9.1      | 5.9         |
| Budapest (Andrássy út)               | 55          | 660        | 74          | 22.2     | 6.6         |
| OUT OF TOWN RETAIL<br>(RETAIL PARKS) | €           |            | US\$        | GROWTH % |             |
|                                      | SQ.M<br>MTH | SQ.M<br>YR | SQ.FT<br>YR | 1YR      | 5YR<br>CAGR |
| Budapest                             | 9.00        | 108        | 12.0        | 12.5     | 5.2         |
| Budaörs                              | 8.00        | 96         | 10.7        | 6.7      | 2.7         |

### Prime Retail Yields - December 2017

| HIGH STREET SHOPS<br>(FIGURES ARE GROSS, %)                    | CURRENT | LAST | LAST | 10 YEAR |      |
|--|---------|------|------|---------|------|
|  | Q       | Q    | Y    | HIGH    | LOW  |
| Budapest (Váci utca)   | 5.25    | 5.50 | 5.50 | 7.75    | 5.25 |
| Budapest (Andrássy út)   | 5.75    | 6.00 | 6.00 | 8.00    | 5.75 |
| OUT OF TOWN RETAIL<br>(RETAIL PARKS)<br>(FIGURES ARE GROSS, %) | CURRENT | LAST | LAST | 10 YEAR |      |
|  | Q       | Q    | Y    | HIGH    | LOW  |
| Budapest   | 7.25    | 7.50 | 7.50 | 8.50    | 6.25 |
| Budaörs  | 7.25    | 7.50 | 7.50 | 8.50    | 6.00 |
| SHOPPING CENTRES<br>(FIGURES ARE GROSS, %)                     | CURRENT | LAST | LAST | 10 YEAR |      |
|  | Q       | Q    | Y    | HIGH    | LOW  |
| Country prime  | 5.80    | 5.85 | 6.00 | 7.50    | 5.80 |

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### Recent performance



## Overview

Early data suggests that Hungary's economy continued to grow by 3.8% in 2017. Private consumption remains an important driver of growth, with real wages continuing to soar. Consumption growth remained solid and increased by 4.0% in 2017, supported by a tight labour market and hikes in real earnings.

## Occupier focus

Strong occupier demand for prime high street and shopping centre locations was sustained in the last quarter of the year. Indeed, a 9.1% year-on-year rental growth was measured in prime high street rents and 6.3% growth for prime shopping centres – albeit levels were unchanged over the quarter. A growing number of international mass-market and high-end operators are actively looking to enter the Hungarian market in key schemes.

On the supply side, there have been no new shopping centre openings and no extension projects completed in recent years. Supply of retail space is not expected to change until 2019 when Etele City Center is expected to complete. At the same time, modernisation works are currently under way in schemes such as in Mammut and ShopMark Shopping Center.

## Investment focus

Following the strong investment activity seen in the first three quarters of 2017, Q4 delivered an investment volume of €73m. This was underpinned by the acquisition of Market Central Ferihegy retail park by Erste RE Fund. Additionally, a portfolio of 15 high street assets was purchased from APF. In response, prime retail park and high street yields have both compressed by 25 bps during the quarter. Further downward pressure on all prime retail yields is anticipated for 2018.

## Outlook

The outlook for retail property market is positive. Prime high street rents are anticipated to increase further as 2018 progresses. Yield compression is also possible if financing continue to remain supportive and more product come to the market.

# HUNGARY

# Industrial Market Snapshot

Fourth Quarter | 2017



## MARKET INDICATORS

### Market Outlook

- Prime Rents: Very limited available warehouse space is putting upwards pressure on rents for both existing and BTS units. ▼
- Prime Yields: Yields could sharpen further as investor demand solidifies. ▲
- Supply: Existing new supply is 80% pre-leased for 2018. It is expected that this will be followed by speculative developments breaking ground. ►
- Demand: Pre-lease agreements and BTS activity are likely to accelerate in 2018 from tenants wishing to secure space for market entrance and expansions. ►

### Prime Industrial Rents – December 2017

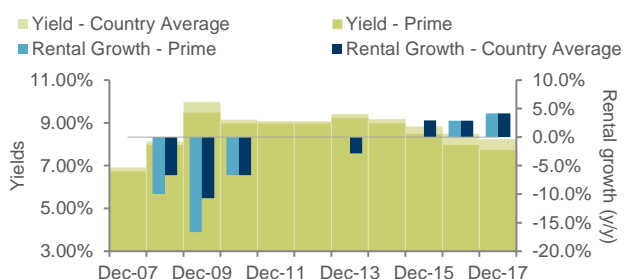
| LOGISTICS LOCATIONS | €        |         | US\$     | GROWTH % |          |
|---------------------|----------|---------|----------|----------|----------|
|                     | SQ.M MTH | SQ.M YR | SQ.FT YR | 1YR      | 5YR CAGR |
| Budapest            | 3.75     | 45.0    | 5.02     | 4.2      | 1.4      |
| Debrecen            | 3.50     | 42.0    | 4.68     | 0.0      | 0.0      |
| Miskolc             | 3.50     | 42.0    | 4.68     | 0.0      | 0.0      |
| Győr                | 3.75     | 45.0    | 5.02     | 7.1      | 1.4      |
| Székesfehérvár      | 3.50     | 42.0    | 4.68     | 0.0      | 0.0      |

### Prime Industrial Yields – December 2017

| LOGISTICS LOCATION<br>(FIGURES ARE GROSS, %) | CURRENT | LAST | LAST | 10 YEAR |      |
|--|---------|------|------|---------|------|
|  | Q       | Q    | Y    | HIGH    | LOW  |
| Budapest                                     | 7.75    | 8.00 | 8.00 | 9.50    | 6.75 |
| Debrecen                                     | 9.25    | 9.50 | 9.75 | 12.00   | 7.50 |
| Miskolc                                      | 9.50    | 9.50 | 9.75 | 12.00   | 7.50 |
| Győr   | 9.00    | 9.00 | 9.25 | 10.00   | 7.00 |
| Székesfehérvár                               | 9.25    | 9.25 | 9.50 | 10.00   | 7.00 |

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### Recent performance



## Overview

Early data suggests that Hungary's economy continued to grow by 3.8% in 2017, and industrial production grew by 5.9% y-o-y. Latest PMI data and the GKI economic sentiment index suggest that business confidence has remained strong. Indeed, the Hungarian industrial market witnessed record high levels of activity pushing Budapest's vacancy rate down to 4.0%, the lowest level ever registered.

## Occupier focus

Occupier demand remained robust with over 211,000 sq m signed leases registered in the last quarter, which represents growth of 58% y-o-y. The underlying lack of imminent relocation options has seen pre-leases feature prominently with a share of 38%, and renewals accounted for 36% of the total occupational activity. Annual take-up reached 618,000 sq m in 2017, the highest on record for the Budapest market, and a 44% increase on 2016.

Four schemes, mostly pre-leased prior to completion were delivered over the last quarter, extending to 46,600 sq m. Supply therefore, cannot accommodate the requirements of new entrants and expansions. The lack of available warehouse space around Budapest and the current strong demand trends are strengthening landlords' negotiating positions. This resulted in a 4.2% y-o-y growth of headline rents and further reductions in incentives over the course of 2017.

## Investment focus

Following the strong investment activity seen in the first three quarters of 2017, Q4 delivered one transaction only whereby Goodman sold the former Bertrans plant in Kecskemet. Yields hardened 25 bps over the quarter, standing at 7.75% for prime assets in the capital city. Further compression is expected due to increased competition for the best assets.

## Outlook

Development activity is accelerating with five schemes extending to a total of 115,000 sq m, being under construction. New developments are still subject to pre-lease agreements as 80% of the pipeline has lease commitments in place. We expect however, that speculative projects will break ground in the upcoming period, yet the cost of construction and related services remain a limiting factor.

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