

INDUSTRIAL MARKET OVERVIEW HUNGARY YEAR-END 2014

A Cushman & Wakefield research publication

JANUARY 2015



ECONOMIC SUMMARY – DECEMBER 2014

ECONOMIC INDICATORS*	2012	2013	2014 ^F	2015 ^F	2015 ^F
GDP growth	-1.5	1.6	3.2	2.2	2.2
Consumer spending	-1.9	-0.1	1.5	2.2	2.1
Industrial production	-1.4	1.4	7.8	4.9	5.1
Investment	-4.2	5.2	14.9	2.8	1.7
Unemployment rate (%)	10.4	9.8	7.6	7.3	7.2
Inflation	5.7	1.7	-0.2	0.8	2.5
HUF/€ (average)	289.3	297.0	308.4	308.6	304.1
HUF/US\$ (average)	225.1	223.7	231.8	249.9	251.9
Money market rate (%)	7.0	4.3	2.4	2.0	2.2
Interest rates 10-year (%)	7.9	5.9	4.8	3.5	4.1

NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast
Source: Oxford Economics Ltd. and Consensus Economics Inc

THE HUNGARIAN ECONOMY IS PERFORMING STRONGLY

aided by accommodative monetary policy, low inflation and rising consumer spending. Consumer confidence is now at levels last seen in 2006, helped by the robust recovery in the labor market, which has seen the unemployment rate falling.

MARKET OUTLOOK

GDP GROWTH

is moderate but remain above-average in 2015

INFLATION

Is likely to stay negative until mid 2015

INTEREST RATE

cuts are likely in H1 2015

EMPLOYMENT

continues to improve gradually

FORECASTS FOR THE HUNGARIAN ECONOMY HAVE BEEN UPGRADED FURTHER,

growth of 3.2% is now expected for 2014 (the best performance since 2006) followed by 2.5% in 2015.

THE 2014 PERFORMANCE IS EXPECTED TO EXCEED

the Slovakian, the Czech and the Romanian performance.



Given the **INCREASINGLY CHALLENGING EXTERNAL CONDITIONS** and a tighter fiscal policy, the consumer sector is anticipated to come to the fore later in 2015.

THE LONG-TERM OUTLOOK FOR THE ECONOMY IS BRIGHT as the country's GDP remains below its 2008 peak, implying ample scope for catch-up.

SIGNIFICANT DOWNSIDE RISKS remain, including further anti-business policies and a resulting erosion in the country's competitiveness as well as an escalation of the crisis in Ukraine and sluggish growth in the Eurozone.

CONSUMER SECTOR GAINS MOMENTUM

Consumer prices are falling on the back of a plunge in global oil prices, sharp falls seen in unemployment and low interest rates continue to boost households' disposable incomes. Private consumption is estimated to have grown by 1.5% in 2014 and is set to accelerate to 2.2% in 2015.

COUNTRY OVERVIEW

DEMOGRAPHICS

HUNGARY with a population of 9.9 million (2013) and a land area of 92,340 sq km, is bordered by Slovakia to the North, the Ukraine and Romania to the East, Serbia and Montenegro and Croatia to the South and Slovenia and Austria to the West. The country is situated in the centre of the CEE region connecting Western to Eastern Europe.



BUDAPEST is the economic and political capital with some 1.7 million inhabitants. This constitutes 17% of the country's population which is proportionately high compared to the capitals of Poland (5%), Slovakia (8%) and the Czech Republic (12%). Hungary has only nine towns with a population over 100,000.

TRANSPORT

ROAD: Hungary is well served by a Motorway network that is still being extended, with the M1 leading to the west of Hungary and on to Vienna, the M7 to the tourist destination of Lake Balaton, Croatia and Slovenia. The M5 leads to the south to Szeged then Serbia, while the M3 leads to the east, and Romania and the Ukraine. The Hungarian motorway network is Budapest-centred.



AIR: There are two passenger terminals at Budapest's Liszt Ferenc International Airport, which is 16 km south-east of the capital.

RAILWAY: Budapest is the hub of the Hungarian railway network, with three large stations. From Budapest a 7,607 km network radiates through the country with various connections to the larger towns. Whilst many domestic lines are dated, international connections such as from Budapest to Vienna are efficient and comfortable.

COUNTRY DATA

Population	9.9 million (2013)
Top Cities	
Budapest	1,700,000
Debrecen	204,000
Miskolc	163,000
Szeged	161,000
Győr	129,000
Currency	Forint
VAT - Standard Rate	27%
Population	9.9 million (2013)
Top Cities	

ECONOMIC & POLITICAL BREAKDOWN

GDP	US\$ 130.9 billion (2013)
Public sector balance	-2.2% of GDP (2013)
Public sector debt	79.2% of GDP (2013)
Current account balance	3.0% of GDP (2013)
Parliament	Majority government of Fidesz and KDNP
President	János Áder
Prime Minister	Viktor Orbán
Election dates	October 2014 (Municipality) 2017 (Presidential) 2018 (Parliamentary and Municipal)
GDP	US\$ 130.9 billion (2013)
Public sector balance	-2.2% of GDP (2013)
Public sector debt	79.2% of GDP (2013)

INDUSTRIAL SNAPSHOT Q4 2014

The Hungarian industrial market had a good finish to the year - leasing activity in Budapest soared to a two year high in Q4 and subsequently availability fell below the 300,000 sq m mark for the first time since 2010.

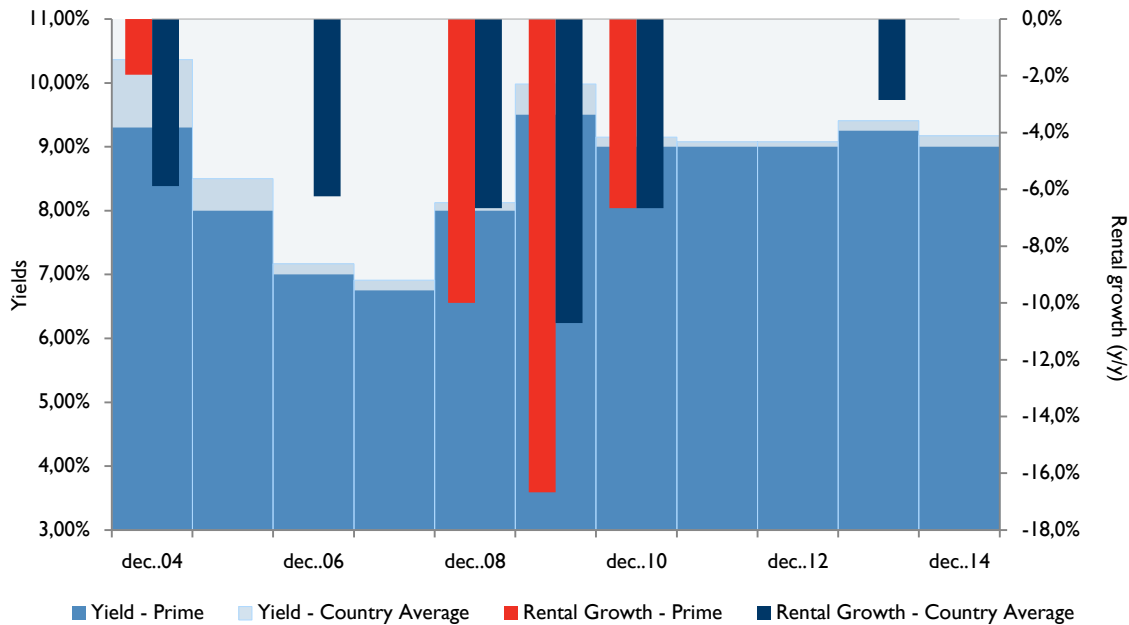
In spite of this improvement, and the drop in vacancy from 18.6% to 15.6%, the vacancy is still above the European average and development activity remains muted as landlords continue to compete for tenants.

Prime rents have remained unchanged.

A key attraction for investors remains the relatively returns achievable with yields ranging 9.00%-9.75% coupled by a strengthening occupier market.

MARKET INDICATORS					
	2010	2011	2012	2013	2014
Take-up	209,928	324,299	159,076	242,206	378,827
New leases	69,673	88,667	48,078	92,984	136,453
Pre-leases	35,000	11,990	6,300	10,800	12,540
Expansions	31,020	47,011	11,746	48,302	64,982
Renewals	74,235	176,631	92,952	79,024	164,852
Stock	1,805,145	1,807,207	1,822,933	1,833,639	1,855,584
Availability	352,343	375,776	353,350	397,430	291,072
Vacancy rate	19.52%	20.80%	19.38%	21.67%	15.69%

RECENT PERFORMANCE YIELDS VS RENTAL GROWTH IN THE 2004-2014 PERIOD



MARKET OUTLOOK

PRIME RENTS

remain unchanged but incentives could narrow as the vacancy rate improves

PRIME YIELDS

no significant changes anticipated against moderate transaction volumes

SUPPLY

Decreasing availability due to the lack of new speculative space coming online

DEMAND

Favourable economic prospects should preserve current activity levels

OCCUPATIONAL MARKET – SUPPLY

Being located at the centre of the Helsinki Corridors and along main Ten-T Network

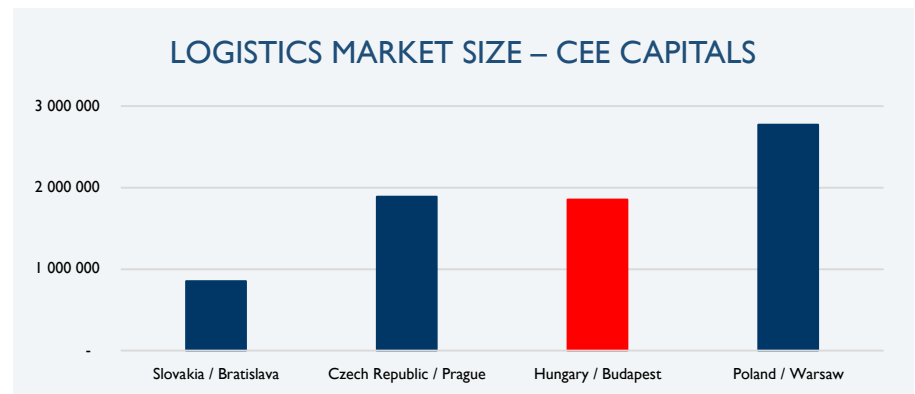
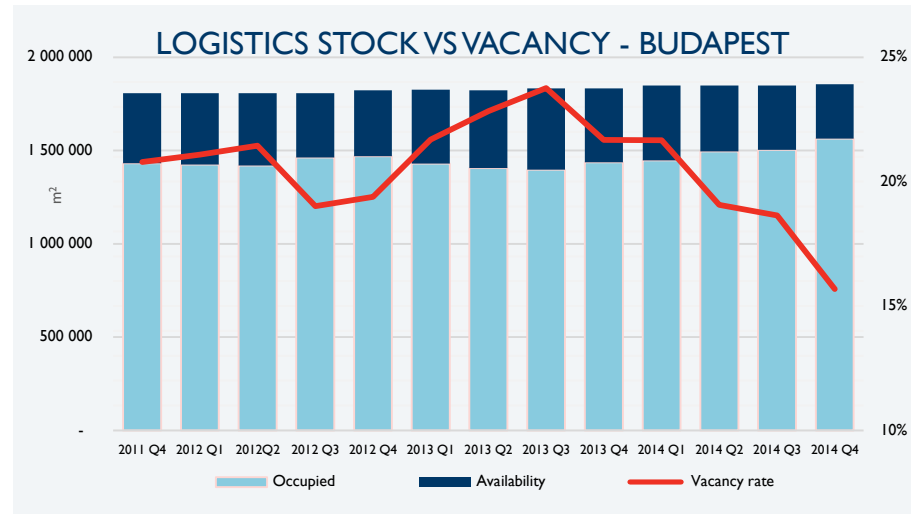
routes, Hungary has strong credentials for logistics and industrial business sites. The extensive road and railway network enabled industrial projects to be developed in the country.

Most of Hungary’s modern logistics space is centred around Budapest, in particular along the M0 ring road whereas production facilities are spread out throughout the country. Speculative logistics have been historically developed alongside the M1 motorway. Regional cities have remained underdeveloped in that regard.

Manufacturing is often heavily incentivized by the government and the EU to locate in certain locations, although this often stimulates related demand from related businesses. The majority of the non-owner occupied industrial logistics market is represented by the big box logistics units developed to the highest international standards.

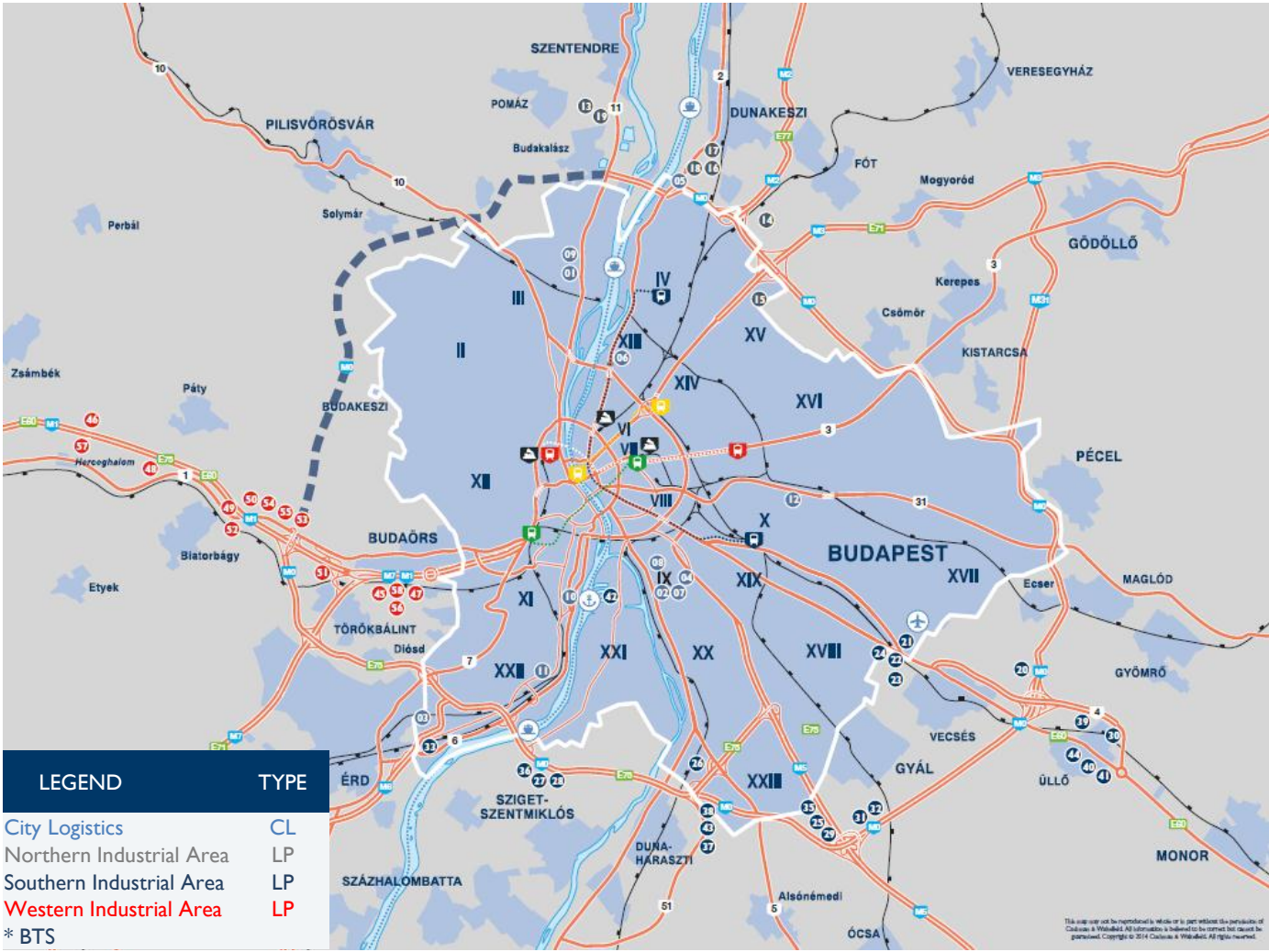
Industrial hotspots in terms of production based businesses are Győr and Kecskemét - with Audi just recently expanding its production facility at the former, and Daimler opening its factory at the latter in 2011.

The automotive industry is further represented in Esztergom (Suzuki) and Szentgotthárd (General Motors / Opel). Naturally, the mentioned locations are a magnet for car industry related businesses, boosting the economic performance of subject areas.



In a CEE CONTEXT, WARSAW'S industrial market is the largest followed by PRAGUE and BUDAPEST. Relevant non-capital markets can only be found in POLAND and the CZECH REPUBLIC.

BUDAPEST MAP



Budapest's logistics market developed along the M1 highway, which connects Budapest to Vienna, then spread eastwards alongside the M0 motorway as it developed.

REGION	TYPE	NAME	EXISTIN G AREA SQ M	TOTAL PLANNED AREA SQ M	
01	City Logistics	CL	Aquincum Logisztikai központ	7,800	7,800
02	City Logistics	CL	City Point 9	20,000	20,000
03	City Logistics	CL	C-Moll Logistics Centre	6,300	6,300
04*	City Logistics	CL	Dél-Pest Üzleti Park	32,000	40,000
05*	City Logistics	CL	Európa Center	76,000	81,000
06	City Logistics	CL	Innovations Business Park	4,000	4,000
07	City Logistics	CL	inNove Business Park	19,000	19,000
08	City Logistics	CL	Office Campus	9,000	9,000
09	City Logistics	CL	Varpex Logisztikai Központ	8,000	8,000
10*	City Logistics	CL	DAN Business Park	6,200	9,300
11	City Logistics	CL	Nagytétényi Ipari Park (IPD)	12,000	12,000
12	City Logistics	CL	Tengelmann building	41,000	41,000
13	Northern Industrial Area	LP	Bravos Business Park	7,300	7,300
14*	Northern Industrial Area	LP	East Gate Business Park	65,000	140,000
15*	Northern Industrial Area	LP	Ozone Business Park	0	37,000
16	Northern Industrial Area	LP	Gentraco	13,000	13,000
17	Northern Industrial Area	LP	MTH6	11,000	11,000
18	Northern Industrial Area	LP	SCT Keszi	16,000	16,000
19	Northern Industrial Area	LP	WCC Business Center	8,000	8,000
20*	Southern Industrial Area	LP	Aerozone Logistics Park	0	170,000
21*	Southern Industrial Area	LP	Budapest Airport Business Park	11,000	200,000
22	Southern Industrial Area	LP	Europolis Park Budapest Aerozone	62,000	62,000
23*	Southern Industrial Area	LP	Europolis Park Airport	0	30,000
24*	Southern Industrial Area	LP	Airport City	27,000	52,000
25	Southern Industrial Area	LP	Akácliget logisztikai központ	18,000	18,000
26*	Southern Industrial Area	LP	BILK	172,000	210,000
27	Southern Industrial Area	LP	M0 Central Business Park	32,000	32,000
28	Southern Industrial Area	LP	Delta Park M0	9,000	9,000
29*	Southern Industrial Area	LP	Goodman Gyál Logisztikai Központ	23,000	43,000

REGION	TYPE	NAME	EXISTING AREA SQ M	TOTAL PLANNED AREA SQ M	
30*	Southern Industrial Area	LP	M4 Anvil Business Centre	0	80,000
31*	Southern Industrial Area	LP	M5-Gyál Business Park	36,000	57,000
32	Southern Industrial Area	LP	Tesco DC Gyál	45,000	45,000
33*	Southern Industrial Area	LP	ProLogis Park Budapest - Harbor	132,000	178,000
34*	Southern Industrial Area	LP	ProLogis Park Budapest - Batta	39,000	93,500
35	Southern Industrial Area	LP	ProLogis Park Budapest - Gyál	152,000	152,000
36*	Southern Industrial Area	LP	PRoLogis Park Budapest - Sziget	121,000	170,000
37	Southern Industrial Area	LP	South Base 1.	16,000	16,000
38	Southern Industrial Area	LP	South Base 2.	11,000	11,000
39*	Southern Industrial Area	LP	Üllő Airport Logistics Center	44,000	155,000
40	Southern Industrial Area	LP	Viktória Ipari Park	41,000	41,000
41	Southern Industrial Area	LP	Invesco Warehouse - Viktória Park	38,000	38,000
42	Southern Industrial Area	LP	Budapest Szabadkikötő	15,000	15,000
43	Southern Industrial Area	LP	Dunaharaszti - Immoeast raktár EHL	13,000	13,000
44	Southern Industrial Area	LP	Former K-Sped Warehouse	21,000	21,000
45	Western Industrial Area	LP	Concord Business Park	0	90,000
46*	Western Industrial Area	LP	Agrogate	30,000	240,000
47	Western Industrial Area	LP	Budaörs Business Park	11,000	11,000
48*	Western Industrial Area	LP	Europolis Park Budapest M1	69,000	260,000
49	Western Industrial Area	LP	Rozália Park	58,000	58,000
50	Western Industrial Area	LP	Tulipan Park	29,000	29,000
51*	Western Industrial Area	LP	West Gate Business Park	19,000	25,000
52	Western Industrial Area	LP	Westlog DC	69,000	69,000
53	Western Industrial Area	LP	B1 warehouse	5,600	5,600
54*	Western Industrial Area	LP	B2 warehouse	0	18,000
55	Western Industrial Area	LP	Bunzl warehouse	5,400	5,400
56	Western Industrial Area	LP	ProLogis Budaörs	29,000	29,000
57	Western Industrial Area	LP	Tesco DC Herceghalom	47,000	47,000
58	Western Industrial Area	LP	Euro-Businesspark	71,000	71,000

INDUSTRIAL DEVELOPMENT ACTIVITY

Speculative construction has been absent from the Budapest market for a number of years.

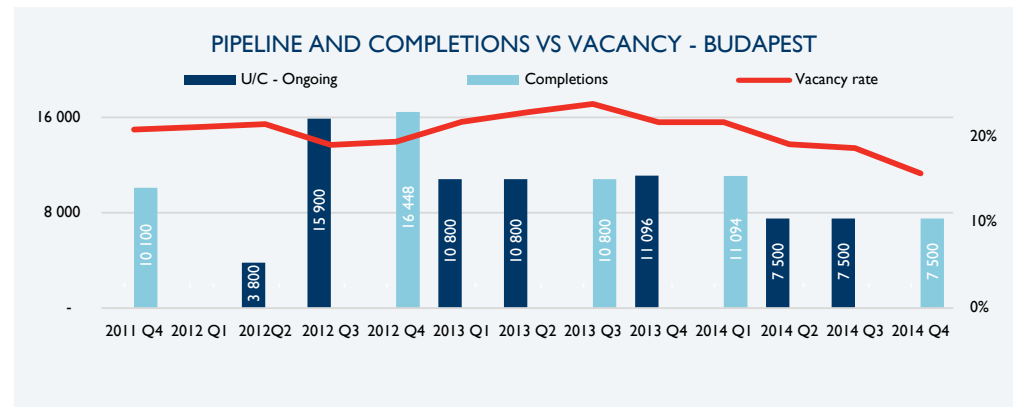
This has helped in the rebalancing of the market and the decreasing vacancy rate, but has resulted in the scarcity of large floor-plates. On the back of this, vacancy has been decreasing since Q3 2013 and is expected to decrease further over 2014 / 2015.

New construction is still closely linked to securing substantial prelease agreements.

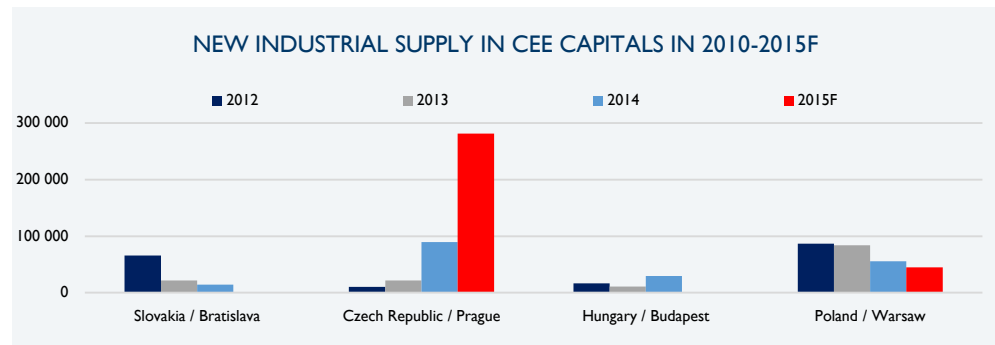
Occupiers have turned to the built-to-suit environment in search of solutions, especially for long term requirements.

Latest BTS completions in 2014 include the 11,100 sq m warehouse for GE in the East Gate BP and the 7,500 sq m BTS for Schenker in ProLogis Sziget.

There is currently no ongoing development on the Budapest market.



IN CEE CONTEXT, development activity is concentrated in PRAGUE, while WARSAW see modest activity. BUDAPEST AND BRATISLAVA is currently out of developers radar.



OCCUPATIONAL MARKET

The development pipeline has dried up completely in Budapest with new construction now closely linked to securing substantial pre-lease agreements. On the back of this,

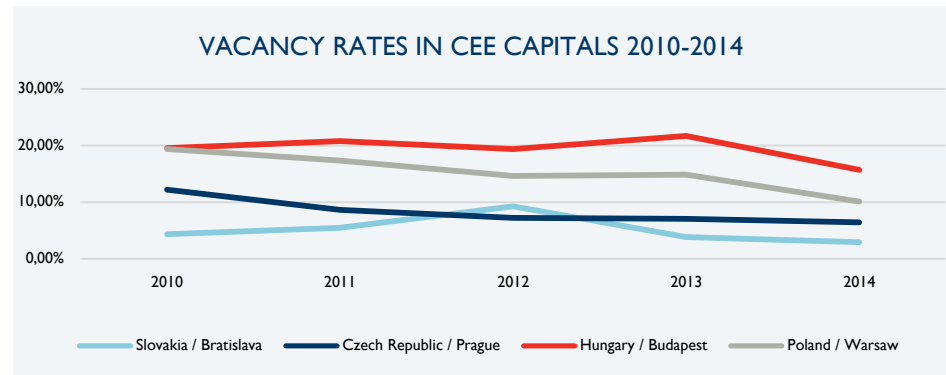
vacancy has been decreasing since Q3 2013 and is expected to decrease further over 2015.

Due to the strong take-up the net absorption has been positive since Q4 2013 and vacancy for prime logistics declined to 15.69% - down from the peak of 23.3%.

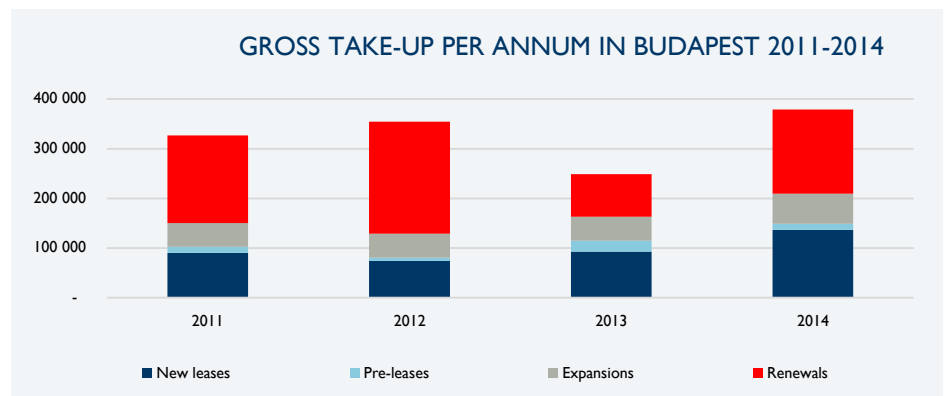
Amid continued positive sentiment on the occupational market, lease agreements for more than 128,000 sq m were concluded in and around Budapest during Q4 2014. This is nearly double the volume achieved in Q3 and marginally ahead of Q4 last year. Furthermore, **the year as a whole has seen a 50% surge in take-up, making 2014 a record year in this respect.**

The improvement over the year was driven by **a growing volume of new leases and expansions**

and, while renewals continue to account for a substantial part of activity, the release or excess space has become less of a driving force.



IN A CEE COMPARISON, vacancy remains persistently high, and continues to LIMIT SPECULATIVE CONSTRUCTIONS ACROSS THE COUNTRY.



OCCUPATIONAL MARKET – DEMAND

Logistics service providers continue to compete for business and larger scale requirements are being activated.

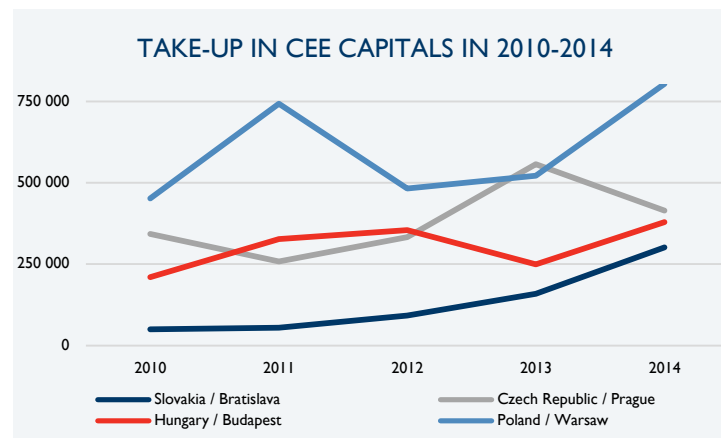
In addition there is more sustained demand for smaller size Grade 'A, warehouse space. Furthermore, new market entrants from within the logistics and production sector are registering new requirements although it is likely to be between 12-18 months before these translate into actual deals.

On the production side, requirements are typically regional focused, either linked to the automotive industrial clusters, or determined by the intensity of governmental incentives in the given area.

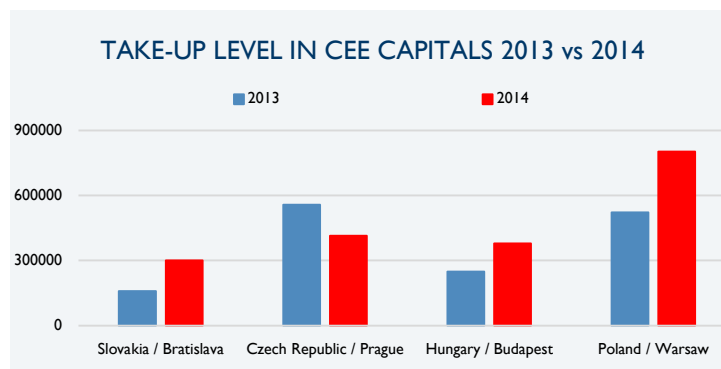
In Q4, two large scale deals boosted activity volumes, namely Ceva's renewal on 28,600 sq m and GE's new lease on 20,800 sq m. However, a good number of small sized deals of between 1,000 sq m – 10,000 sq m have also been recorded, indicating a healthy spread of the current demand.

LARGEST LEASING TRANSACTIONS IN 2014 WERE AS FOLLOWS:

LP/CL	SCHEME NAME	TENANT NAME	SIZE	TYPE OF DEAL
LP	BILK	CONFIDENTIAL	11,700	expansion
LP	ProLogis Park Budapest-Gyál	Sauflon	14,423	renewal
LP	ProLogis Harbor Park	HOPI	18,965	renewal
LP	ProLogis Park Budapest-Sziget	Schenker	19,022	new
LP	ProLogis Harbor Park	Fiege	19,135	renewal
LP	ProLogis Park Budapest-Sziget	Uti	20,589	renewal
LP	ProLogis Park Budapest-Gyál	GE Hungary	20,754	new
LP	ProLogis Park Budapest-Gyál	CONFIDENTIAL	22,080	new
LP	ProLogis Park Budapest-Batta	Ceva	28,585	renewal
LP	BILK	CONFIDENTIAL	11,700	expansion
LP	ProLogis Park Budapest-Gyál	Sauflon	14,423	renewal



The **DEMAND LEVEL** in Warsaw was in the 800,000 sq m range in 2014 being circa twice that of the Budapest and Prague level. The Bratislava market is the smallest by CEE comparison.



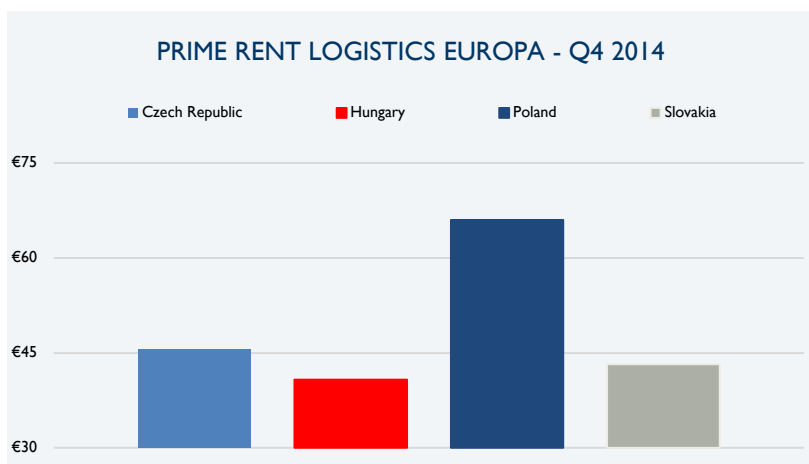
OCCUPATIONAL MARKET - RENTS

Rental levels have remained stable since 2013. Looking forward to 2015, the high vacancy rate continues to stymie positive rental growth.

PRIME INDUSTRIAL RENTS – Q4 2014

Logistics locations	€	€	US\$	Growth %	
	sq m/mth	Sq m/yr	sq ft/yr	iyр	5yr cagr
Budapest	3.40	40.8	4.59	0.0	-1.9
Debrecen	3.50	42.0	4.72	0.0	-1.4
Miskolc	3.50	42.0	4.72	0.0	-1.4
Győr	3.50	42.0	4.72	0.0	-1.4
Székesfehérvár	3.50	42.0	4.72	0.0	-1.4

PRIME LOGISTICS RENTS are the highest in Warsaw. Budapest is the cheapest location by CEE comparison.



Rental levels in Hungary in speculative schemes are still under significant pressure and new development remains unfeasible without long term contracts. Healthy activity levels expected in the short to medium term with a growing number of expansions and new market entrants.

Cushman & Wakefield (C&W) contributed to Metro Kereskedelmi Kft.'s 4,000 sq m temperature controlled warehouse and 273 sq m office space transaction in Europolis Park Budapest Aerozone, owned by CA Immo.

The new tenant is a major FMCG wholesale company with various cash and carry stores throughout Hungary and Europe. The unique, 4,000 sq m cold storage unit has been altered according to the new tenant's specific requirements including insulations, internal separations and goods handling machinery.

Gábor Halász-Csatári, Negotiator Industrial Department at C&W Budapest said:

“Europolis Park Budapest Aerozone is an unique industrial park with a strategic location in terms of road transport and air logistics. We are delighted to introduce such a significant and renowned company to our exclusively represented industrial park. Metro is the market leading cash and carry chain in Hungary, hence this is an excellent addition to the park's existing reputable tenant mix.”

INDUSTRIAL INVESTMENT FOCUS

PRIME INDUSTRIAL RENTS – Q4 2014

LOGISTICS locations (figures are gross, %)	CURRENT	LAST		10 YEAR	
	QUARTER	QUARTER	YEAR	HIGH	LOW
Budapest	9.00%	9.00%	9.25%	9.50%	6.75%
Debrecen	9.75%	9.75%	9.75%	13.50%	7.50%
Miskolc	9.75%	9.75%	9.75%	13.50%	7.50%
Győr	9.25%	9.25%	9.75%	12.75%	7.00%
Székesfehérvár	9.50%	9.50%	9.75%	10.00%	7.00%

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and 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.

Of late, the investment market has only seen smaller lot size deals conclude in Budapest with continued interest in performing and non-performing assets alike. The latter are the focus of end-users in particular and remain in good demand due to the large supply of outdated assets at affordable pricing in the current market. Prime investment opportunities remain limited due to the lack of suitable product. Yields have not changed in the last quarter of 2014 as a consequence. 2014 saw the acquisition of 2 prime logistics assets around Budapest. One of these is part of the Pan-European industrial portfolio bought by Blackstone, and the other warehouse bought by Prologis. Some deals have also been recorded at the lower end of quality spectrum, notably purchased for owner occupation.

LARGEST INDUSTRIAL DEALS IN 2014 ARE AS FOLLOWS:

SUBMARKET	PROPERTY NAME	INVESTOR	VENDOR	PRICE € MILLIONS	INVESTMENT OBJECTIVE
Budapest	Auchan Warehouse	ProLogis	Invesco	10.3	Standing investment
Győr	Audi Warehouse	Audi	AK Projekt	40.0	Standing investment
Komárom	Savcor	HU Private	Savcor	1.3	Vacant possession
Budapest	M0 Central	Gazeley	Cargil	5.0	Standing investment
Budapest	Csillagvirág	HU occupier	CIB Bank	2.4	Vacant possession

MARKET OUTLOOK

The market remains hampered by scarcity of prime, fully-let properties

In 2015 we do not expect the yields to change much for prime products and moderate transaction volumes are anticipated

A key attractions for investors will remain the relatively high achievable yields ranging 9.00-9.75% coupled by a strengthening occupier market.

We expect to see increasing demand from investors who are clearly being attracted by the high yields in Hungary compared to other CEE countries

INDUSTRIAL INVESTMENT FOCUS IN CEE CONTEXT

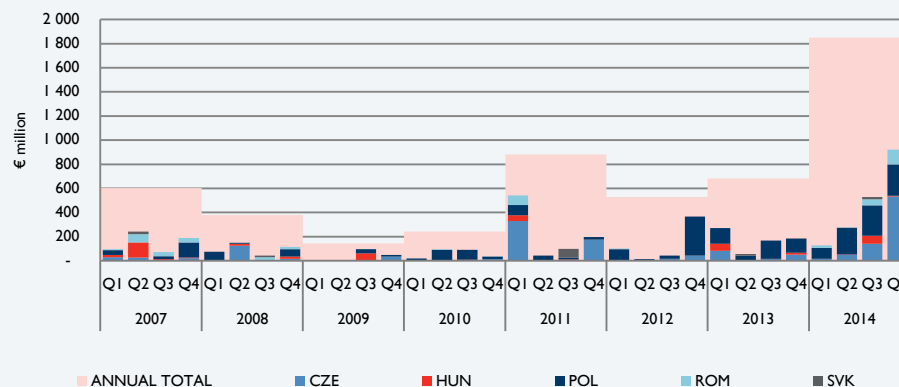
Total industrial investment volume in the Central and Eastern Europe region amounted to more than €1.8 billion in 2014. The growth was driven mainly by the increased attention of international players, such as Blackstone, which invested more than € 330 million in the region in 2014.

The biggest deal was closed in the Czech Republic through the sale of a portfolio of 11 industrial plants for more than € 500 million to PointPark Properties. The investors' focus is mainly on Poland and the Czech Republic with more than 80% share of the total investment volume. The Romanian market also experienced significant attention by investors in 2014, with the sale of the 215,000 sq m GLA Europolis Logistic Park for € 120 million one of the largest transactions in 2014.

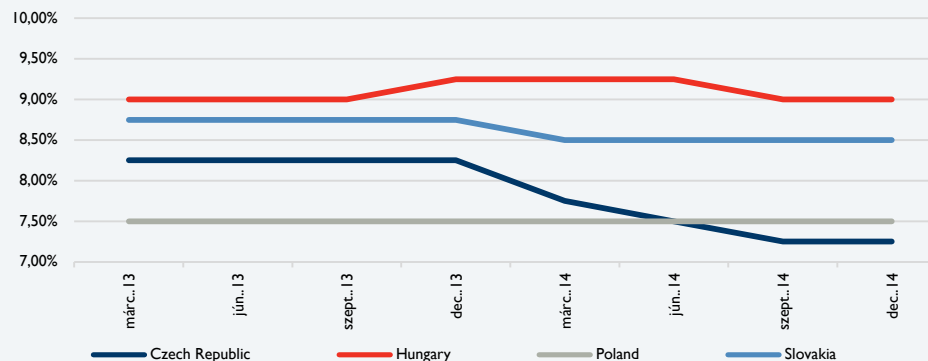
Hungary concluded 8 industrial investment deals, amounting to nearly € 75.5 million, which is a slight decline in volume compared to 2013, yet the number of deals increased. The biggest investor on the Hungarian market in 2014 was Audi, acquiring a 72,000 sq m warehouse in Győr. US investors were active in Hungary: Blackstone and Prologis both closed deals in an aggregated amount of € 24.5 million.

We expect to see increasing demand from investors who are clearly being attracted by the high yields in Hungary compared to other CEE countries.

CEE QUARTERLY INDUSTRIAL INVESTMENT VOLUMES, BY COUNTRY (€ MN)



CEE PRIME INDUSTRIAL INVESTMENT YIELDS



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