

MARKETBEAT

RETAIL MARKET REPORT

26 FEBRUARY 2015

A Cushman & Wakefield Research Publication



BUDAPEST



ECONOMIC SUMMARY – DECEMBER 2014

ECONOMIC INDICATORS*	2012	2013	2014 ^F	2015 ^F	2016 ^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

GDP IS GROWING AND THIS HAS FILTERED THROUGH TO RETAIL SPEND aided by accommodative monetary policy and low inflation. Consumer confidence is now at levels last seen in 2006, helped by the robust recovery in the labour market, which has seen the unemployment rating 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,

with 3.2% 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.

	GDP GROWTH	CONSUMER SPENDING
 WARSAW	3.4	3.1
 BUDAPEST	3.2	1.5
 PRAGUE	2.3	1.4

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.

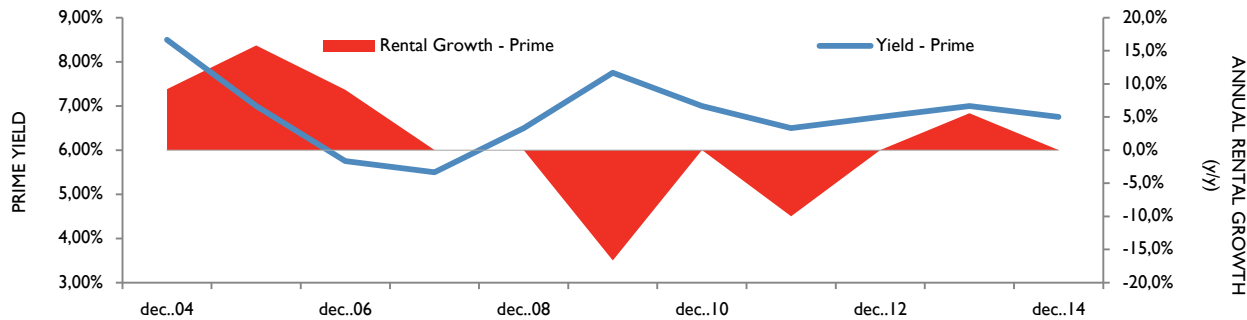
SIGNIFICANT DOWNSIDE RISKS remain, including further anti-business policies and a resulting erosion in the country's competitiveness as well as an escalation of the crisis in Ukraine and sluggish growth in the Eurozone.



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 3.1% in 2015.

PRIME RETAIL VALUES - HUNGARY



THE OUTLOOK FOR THE RETAIL SECTOR IS GENERALLY STABLE, albeit there are some concerns over the potential impact of increased state intervention in recent months.

A new law was passed in December, which forces non-family owned retail stores that are larger than 200 sq m GLA to **SHUT ON SUNDAYS**, which may dampen investors appetite and cause some international occupiers to re-consider expansion plans in the country. This is in addition to an already **APPROVED LEVY** of up to 6% on retail activities and a rule that will revoke a trading license if there are two consecutive years of trading losses.

Most retailers believe that the measures of **SUNDAY TRADING BAN WILL NOT LAST** – the ICSC is currently preparing for the public voting against the regulation. Main arguments include the threat of significant staff redundancies and lower revenues through VAT. This will definitely be a hot issue in the coming months and will emerge to cause uncertainty on the market. We are continuously talking to market players and will keep you posted.

MARKET OUTLOOK

PRIME RENTS

ARE STABLE WITH SOME UPWARD PRESSURE FOR VACI UTCA

PRIME YIELDS

FORECAST TO REMAIN UNCHANGED AT CURRENT LEVELS IN 2015

SUPPLY

GOOD SUPPLY IN MOST LOCATIONS AND LIMITED DEVELOPMENT PIPELINE

DEMAND

OCCUPIER DEMAND IS HEALTHY FOR PRIME LOCATIONS WHEREAS INVESTMENT DEMAND TO REMAIN SELECTIVE

RETAIL SNAPSHOT Q4 2014

PRIME RETAIL RENTS – DECEMBER 2014

	€	€	US\$	GROWTH %	
	SQ.M/MTH	SQ.M/YR	SQ.FT/YR	IYR	5YR CAGR
HIGH STREET SHOPS					
Budapest (Váci utca)	95	1,140	128	0.0	-1.0
Budapest (Andrássy út)	40	480	54	0.0	-7.8
	€	€	US\$	GROWTH %	
	SQ.M/MTH	SQ.M/YR	SQ.FT/YR	IYR	5YR CAGR
RETAIL PARKS					
Budapest	7.50	90	10.1	7.1	-3.6
Budaörs	7.00	84	9.4	0.0	-4.9

PRIME RETAIL YIELDS – DECEMBER 2014

HIGH STREET SHOPS	CURRENT	LAST	LAST	10 YEAR	
(FIGURES ARE GROSS, %)	QUARTER	QUARTER	YEAR	HIGH	LOW
Budapest (Váci utca)	6.75	6.75	7.00	8.50	5.50
Budapest (Andrássy út)	7.00	7.00	7.25	11.00	6.00
RETAIL PARKS	CURRENT	LAST	LAST	10 YEAR	
(FIGURES ARE GROSS, %)	QUARTER	QUARTER	YEAR	HIGH	LOW
Budapest	8.50	8.50	8.50	8.50	6.25
Budaörs	8.50	8.50	8.50	8.50	6.00
SHOPPING CENTRES	CURRENT	LAST	LAST	10 YEAR	
(FIGURES ARE GROSS, %)	QUARTER	QUARTER	YEAR	HIGH	LOW
Hungary	7.25	7.25	7.25	7.50	5.00

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.

MARKET OUTLOOK

OCCUPIER FOCUS

Demand remains healthy, with a growing number of international mass-market and luxury operators actively looking for space in key high street locations and in the best performing shopping centres.

There is a relatively good **supply** of retail units in most locations.

Prime rents are under pressure in Váci utca to rise further.

INVESTMENT FOCUS

Investment demand for retail assets is patchy and the majority of deals tend to be smaller sized lots, with local investors dominant in this segment.

International investors are typically only interested in larger shopping centre and portfolio deals.

Total investment volume were €193 mn in 2014, which is better than in recent years but still below the peak annual volumes of €946 mn in 2007.

Prime yields were unchanged across the country.

HIGH STREET RETAIL

The Main Streets Across the World 2014/2015 Cushman & Wakefield Research Publication identified 31 high street locations in the CEE region. Budapest Váci utca is the third most expensive retail location in the region, just after Prague downtown areas but outstrips Warsaw and Bratislava high streets.

Source: Main Streets across the World, A Cushman & Wakefield Research Publication <http://www.cushmanwakefield.com/en/research-and-insight/>

RANK	COUNTRY	CITY	LOCATION	RENT Sept 2014	RENT EURO/SQ.M/YR	RANK	COUNTRY	CITY	LOCATION	RENT Sept 2014	RENT EURO/SQ.M/YR
22.	Bulgaria	Burgas	Alexandrovska	25	300	6.	Poland	Warsaw	ul. Chmielna	70	840
22.	Bulgaria	Plovdiv	Alexander Batenberg	25	300	11.	Poland	Warsaw	ul. Jerozolimskie	47	564
13.	Bulgaria	Sofia	Vitosha Blvd	44	528	7.	Poland	Warsaw	ul. Marszalkowska	60	720
18.	Bulgaria	Varna	Kniaz Boris I.	30	360	4.	Poland	Warsaw	ul. Nowy Swiat	85	1 020
6.	Czech Republic	Brno	Ceska Street / Svobody Square	70	840	14.	Poland	Wroclaw	ul. Swidnicka	40	480
1.	Czech Republic	Prague	Na Prikope / Wenceslas Square	185	2 220	14.	Romania	Brasov	Strada Republicii	40	480
2.	Czech Republic	Prague	Parizska Street	180	2 160	10.	Romania	Bucharest	Bulevardul Magheru	50	600
14.	Hungary	Budapest	Andrássy út	40	480	12.	Romania	Bucharest	Calea Victoriei	45	540
3.	Hungary	Budapest	Váci utca	95	1 140	15.	Romania	Cluj	Memorandumului, Napoca, Eroilor	37	444
19.	Poland	Gdynia	ul. Swietojanska	29	348	23.	Romania	Constanta	Stefan cel Mare, Rascoala din 1907	20	240
9.	Poland	Katowice	ul. 3 Maja	53	636	23.	Romania	Iasi	Stefan cel Mare, Cuza Voda	20	240
5.	Poland	Krakow	ul. Florianska	75	900	16.	Romania	Timisoara	Victoriei	35	420
21.	Poland	Lodz	ul. Piotrkowska	26	312	14.	Slovakia	Bratislava	Downtown	40	480
8.	Poland	Poznan	ul. Polwiejska	55	660	8.	Slovenia	Ljubljana	Copova	55	660
17.	Poland	Szczecin	Al. Niepodleglosci	33	396	20.	Slovenia	Ljubljana	Slovenska ulica	27	324
8.	Poland	Warsaw	Trzech Krzyzy	55	660						

MOST EXPENSIVE LOCATIONS IN CEE

LOCATION	€ SQM /M	PRIME YIELDS CURRENT VALUES
 PRAGUE NA PRIKOPE & WENCELAS SQUARE	€ 185	5.00 %
 PRAGUE PARISKA STREET	€ 180	5.00 %
 BUDAPEST VÁCI UTCA	€ 95	6.75 %
 WARSAW UL. NOWY SWIAT	€ 85	7.50 %

Budapest's high street shopping area is concentrated in 3 major shopping streets located in the city center.

VÖRÖSMARTY SQUARE and VÁCI UTCA is Budapest's main shopping street, offering the highest footfall in the downtown area of the city, and attracting major international mass market retailers,

FASHION STREET is located physically between Váci utca and Andrásy út, offering significant footfall, and exceptional, elegant environment to its main target group: middle to high-end retailers,

ANDRÁSSY ÚT (Andrásy Avenue) located slightly off the main pedestrian shopping zone. Pure destination for luxury retailers close to the Opera House



ANDRÁSSY ÚT

IS EXPECTED TO SEE NEW ENTRANTS AND PRIME RENTS – WHICH ARE CURRENTLY MUCH LOWER THAN THE MAIN SHOPPING STREET IN BUDAPEST AND RANKED ONLY 14 IN CEE COMPARISON – SHOULD RISE.

www.cushmanwakefield.com

VIKTÓRIA SZABÓ

Partner, Head of Retail

viktoriaszabo@eur.cushwake.com

MIKE EDWARDS MRICS

Partner, Head of Valuation & Advisory
CEE; Head of Capital Markets Hungary

mike.edwards@eur.cushwake.com

GÁBOR ERDÉLYI

Associate, Capital Markets

gabor.erdelyi@eur.cushwake.com

ORSOLYA HEGEDŰS MRICS

Associate, Valuation & Advisory; Head
of Research

orsolya.hegedus@eur.cushwake.com

