Research & Forecast Report

# HUNGARY | INDUSTRIAL

2018 H1

Colliers INTERNATIONAL

Accelerating success.

# Industrial Market

## 2018 first half-year market summary

### Countrywide

- Large requirements (10,000 sq m+) dominate the market, but there is a shortage in the market even for leasable/purchaseable areas for over 5,000 sq m.
- Trend of increasing rents and quick transactions continued, due to decreasing flexibility of the owners.
- Due to the limited availability of new speculative industrial supply, renewal deals dominated the Budapest leasing market in 2018 H1.
- There are only a few developers' projects that have a valid construction permit in Budapest.
- Significant increase in the development costs were noticeable, mainly due to the shortage and rising prices of construction material besides the lack of labour force available in the construction industry. As a result the construction periods have increased to 8-10+ months.
- The countryside locations are increasingly becoming the focus of investors/developers, due to the increasing demand for these locations especially from automotive suppliers (manufacturing/assembling, warehousing functions). Therefore, the market is becoming more multipolar.
- Countrywide industrial and logistics demand is driven mainly by the expansion of domestic players and simultaneously by the foreign newcomers (FDI) as well.
- In the first half of 2018 new logistics/industrial companies appeared on the market. South Industrial Park of Debrecen welcomes ITK Holding Zrt. cooperating with Daimler, Continental AG and Krones AG. Furthermore BMW announced developing a new factory in the town on a 400 ha area, and its expected handover is 2022.

### Budapest

- In 2018 first half-year the low vacancy rate decreased further to a record-low level in Budapest by 3.5% (3.3% in the logistic parks and 6.1% in city logistics).
- Top 5 investors and developers own approximately two-thirds of the speculative industrial stock.
- New players usually enter to the market through acquisitions.

## Supply in greater Budapest

- The industrial stock stagnated between 2011 and 2014, but started to grow again in 2015 and further accelerated in 2016.
- At the end of 2017 118,700 sq m industrial development was handed over, while in the first half-year of 2018 three new projects were handed over with 45,000 sq m new space. The following industrial developments were handed over in 2018 H1: East Gate Business Park (11,000 sq m) speculative, Inpark Páty (12,000 sq m) and Budapest Dock Szabadkikötő (7,000 sq m) both are built in BTS construction.
- While the modern logistics stock grew by 2.04 million sq m by the end of 2017, this figure reached the 2.08 million sq m by 2018 H1.
- ~208,000 sq m is under planning/ preparatory phase which is expected to be handed over in 2018-19: Üllő Airport Logistics Center built in BTS (85,350 sq m), Budapest Dock Szabadkikötő (15,000 sq m) speculative, Airport City Logistic Park (12,800 sq m) speculative, CTPark South Dunaharaszti speculative (22,000 sq m), CTPark West Biatorbágy (16,000 sq m, 24,500 sq m) partly built in BTS construction, OTP Budapark (22,000 sq m) and Prologis Harbor (10,500 sq m), the last two are built in speculative way.
- Besides the aforementioned confirmed handovers, additional pre-leases or speculative industrial developments are expected in 2019.

> Because of the limited or lack of available development land in industrial parks, most of the developers acquire plots to develop new projects. The build-to-suit, pre-lease and middle-sized concepts can be the most popular projects.

## Demand in greater Budapest

> In 2018 H1 the total leasing activity accounts to 163,500 sq m, out of which the renewal deals contributed with 103,300 sq m, while the net take-up amounted to 60,200 sq m.

> The net take-up of this half year accounts to only 22% in comparison to the total net take up realized in 2017 (273,383 sq m). The renewal type of transactions still dominate the market. One of the main reasons for this trend may be the lack of available existing space.

> The share of net take-up (BTS, pre-lease, new, expansion) was approximately 7 percentage-point lower in 2018 H1, than it was at the end of 2017.

> The net absorption in H1 2018 was 34,755 sq m, which proportionally shows a significant decrease compared to the total amount realized in 2017 (165,228 sq m).

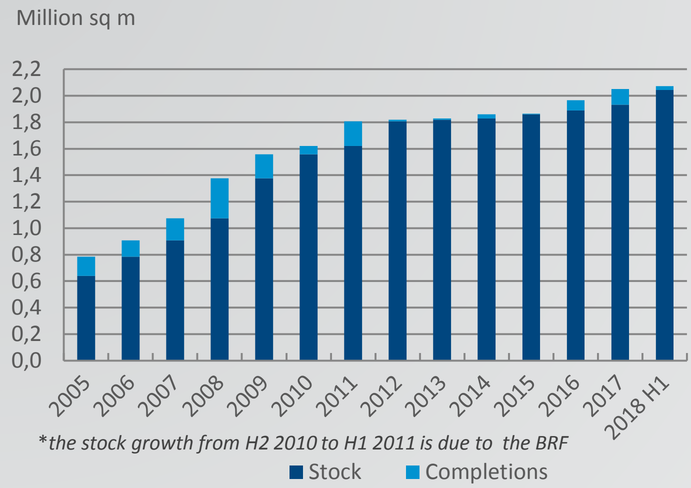
> The rapid increase in e-commerce will require additional warehouse buildings.

> The demand is typically driven by large 10,000 sq m+ or smaller 1,000-2,000 sq m requirements.

> Potential tenants usually have clear preferences regarding the location and they are quite inflexible in changing it. However, in case of urgent need, the location becomes only secondary preference.

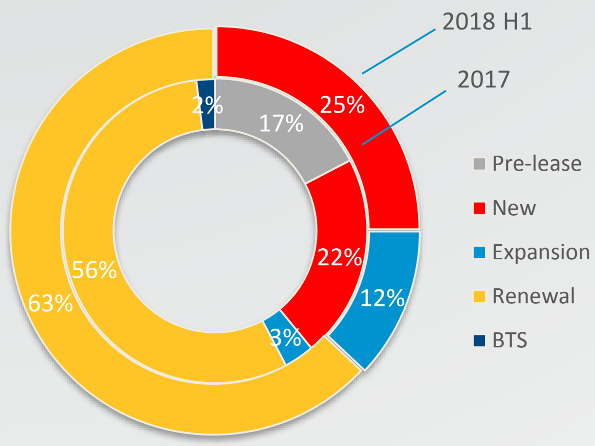
> Similarly to leasing transactions, occupiers are facing difficulties in the case of a potential acquisitions as well: there are only a few high-quality properties in the market at good locations, while there is strong demand not only in Budapest, but also in the countryside. As a result, assets with reasonable pricing and good quality change hands quickly. The main reason behind is the significantly increased construction cost and the prolonged construction time.

### Change in stock 2005-2018 H1




Source: BRF, Colliers International

### Type of transactions in greater Budapest 2017-2018 H1




Source: BRF, Colliers International

### Top 5 transactions over 10,000 sq m in greater Budapest in 2018 H1

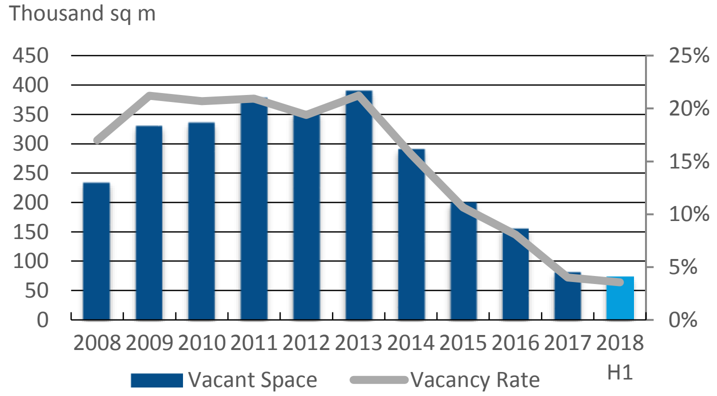
| Buildings | Tenant/Sector | Size (sq m) | Type of deal |
|---|---|---|---|
| Goodman Logistics Center (Gyál) | HOPI | 21,700 | Renewal |
| Prologis Park Budapest – Sziget | Schneider Electric | 19,957 | Renewal |
| Prologis Park Budapest – Gyál | Sauflon | 14,110 | Renewal |
| Prologis Park Budapest – Gyál | Sauflon | 9,757 | Expansion |
| Prologis Park Budapest – M1 | LGI Hungária | 8,706 | Renewal |

Source: BRF, Colliers International

## Vacancy and availability

- Approximately 90% of the stock is located in logistics parks (big box) and only approximately 10% is constituted by city logistics properties.
- The vacancy rate has been decreasing since 2013 and stood at a record-low level of 4.0% by the end of 2017. Since then the vacancy rate in logistics park (big box) stands at 3.3% at the end of 2018 H1, while in city logistics buildings it is 6.1% in Budapest, thus reaching the 3.5% vacancy rate.
- Due to the strong demand and lack of new speculative developments during the previous years, the options became very limited for those tenants, who want to lease 5,000 sq m+ area in existing logistics parks.
- By the end of 2018 H1, only two existing logistics buildings could provide available space over 5,000 sq m.
- Additionally, there is a shortage of supply in terms of so-called ‚plug and play’ development lands, that are immidiately ready to develop.

**Change in vacancy and vacancy rate (2008-2018 H1)**




The stock growth from H2 2010 to H1 2011 is due to the BRF harmonisation.

Source: BRF, Colliers International

## Rents and rental periods

- Headline rents are €4.0 - 4.5/sq m/month for big box logistics and in the metropolitan area of Budapest and €4.5 - 5.5/sq m/month for city logistics projects.
- In case of built-to-suit warehouses, the rents can be significantly higher than the aforementioned specified ranges and can have less flexible terms due to the lack of well-prepared development land, the increased construction costs and the higher technical specifications.
- Net effective rents continued to be typically 5-10 % lower than the headline rents especially in case of long-term lease (10+years).
- In case of completed existing warehouses, the minimum rental period is 3-years, but 5-years is more preferred. However, when it comes to pre-lease/BTS industrial buildings, the minimum is 5+ years, but 7 or 10-years is more preferred. In case of specific technical requirements, the 10+ years is the preference.

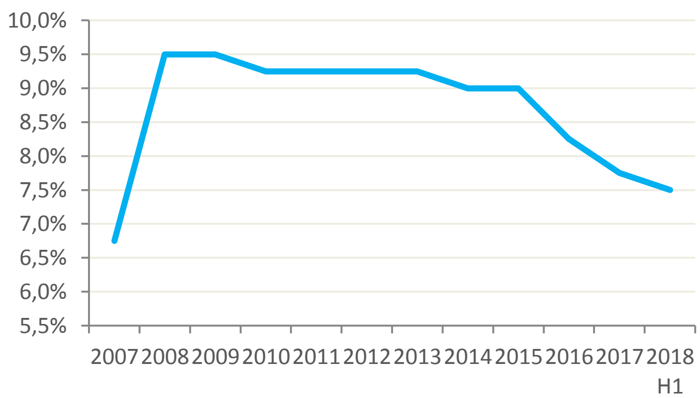
## Price of development lands

- Based on our benchmark data the price of development land would fall into the following ranges:
    - Favourable locations (for instance: M0 ring road) that are ready for development: ~30-40 EUR/sq m.
    - Less favourable locations that need further preparation to become ready to develop: ~25 EUR/sq m.
    - Prime locations or closer to the city, plug and play immediately ready to develop land parcels: ~50+ EUR/sq m.
    - Countryside industrial park/city logistics:~10-30 EUR/sq m.

## Investment market of industrial/logistics assets

- The prime yield of industrial/logistic assets has decreased significantly, with 150 bps, during the last two years, as it stood at 9.0% in 2015 and it is currently stands at 7.5%.
- The investment volume of the industrial/logistic assets reached EUR 15 million in 2018 H1.
- Additionally, the average deal size has been continuously decreasing during the last two years.
- Typical capital value of class „A” industrial building is 400-600+ EUR/sq m.
- There is a shortage of good investment products.

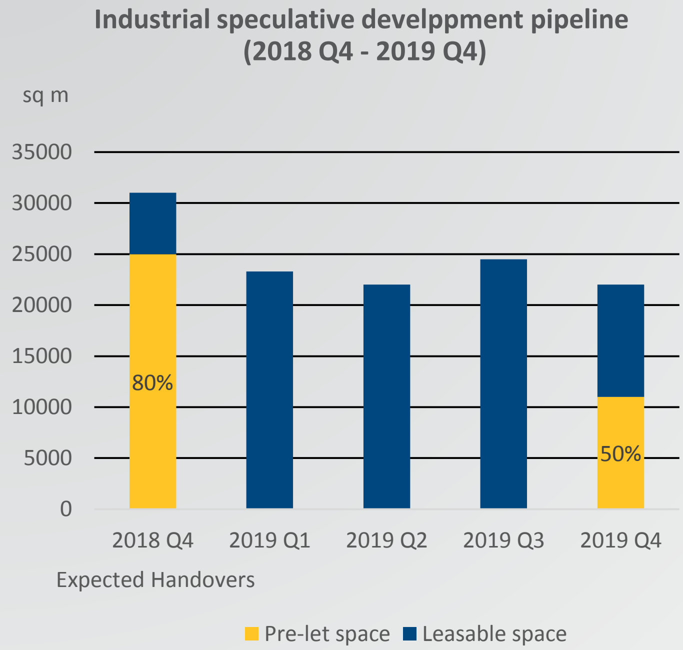
**Prime gross initial yields of industrial/logistics assets (2007 - 2018 H1)**




Source: Colliers International

## Outlook for the second half of 2018

- We expect that vacancy rate will continue to decline in 2018, due to the limited new speculative projects with vacant areas.
- According to the pipeline ~208,000 sq m is under planning/ preparatory phase, which is expected to be handed over in 2018-19.
- The typical size of speculative buildings is expected to remain in the range of 10,000-25,000 sq m.
- It is expected that developments with pre-leases will remain more favourable than speculative ones in 2018-19.
- We expect that, due to the sudden increase in development costs, the prerequisite of more significant speculative pipeline would be the rise in rental rates and/or further yield compression.
- Colliers still sees continued interest in 2018 for good quality industrial premises (either to rent or buy) or prepared land for green field development in countryside locations.
- Outside of Budapest, the most sought after location is generally the north area of M7, but especially along M1 and the area close to M3, and M5 highway till the city of Kecskemét. The most sought-after cities in the countryside are Győr, Tatabánya, Kecskemét, Miskolc, Debrecen.
- The proximity of the highways are always the most popular locations.
- The most popular locations in greater Budapest are the entire southern M0 area and the areas adjacent to the main highways (mostly M1, M5 and finally M3).
- We expect that developers working actively in Budapest will expand their land portfolios in Budapest, in the agglomeration, and also in major industrial centers in the countryside.




Source: BRF, Colliers International

**FOR MORE INFORMATION**

**Tamás Beck**
Director | Hungary
Industrial Agency
+36 20 933 3943
tamas.beck@colliers.com

**Tamás Steinfeld**
Associate Director | Hungary
Research, Valuation & Advisory
+36 70 286 2505
tamas.steinfeld@colliers.com

**CONTRIBUTORS**

**Hajnalka Végh**
Senior Associate | Hungary
Industrial Agency

**Gertrúd Hausenblasz**
Associate | Hungary
Research



Colliers International | Hungary
MOM Park, Gellért torony
H-1124 Budapest, Csörsz utca 41.
colliers.com/hungary

Accelerating success.