Research &
Forecast Report

HUNGARY | INVESTMENT MARKET

MID-YEAR, 2018

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Investment Market

Deal volume & trends

> In 2018 the total investment volume of commercial real estate reached EUR 410 million, which shows a setback in investment activity compared with the same periods in 2017 and 2016.

> This lower volume was realized despite continued strong investors interest, hence the key factor of this drop is mainly related to less available opportunity in the market especially among core products.

> Continued demand by domestic funds, new market entrants and favourable financing conditions as well as the drop of corporate income tax rate are all contributing to the strong fundamentals of the Hungarian commercial property investment market.

> Colliers registered deals of EUR 24 million per transaction which is lower than last year but similar to the level in 2016.

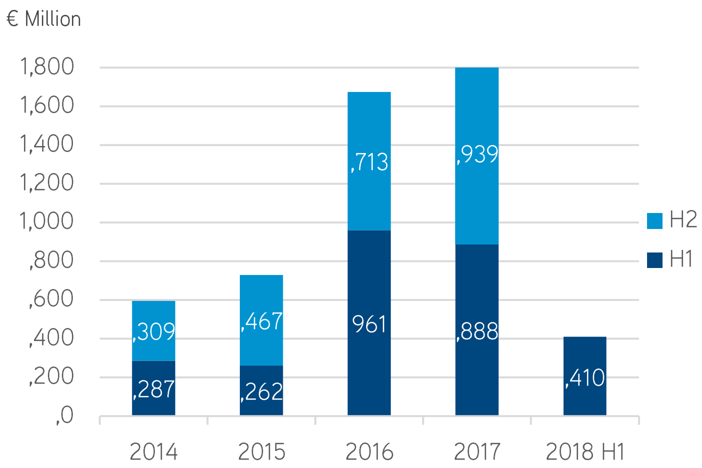
> Budapest has been experiencing a strong capital value appreciation thanks to recent yield compression and rental growth in the recent period.

> Pricing of core opportunities rushed stronger in Budapest than in Prague or Warsaw. Almost all the volume (96%) in 2018 H1 was realized in the two most dominant asset classes. Both the office and retail deals represented 48% of the total volume. They were followed by industrial at much lower share of 4%.

> Based on our information no hotel transaction was closed in this period.

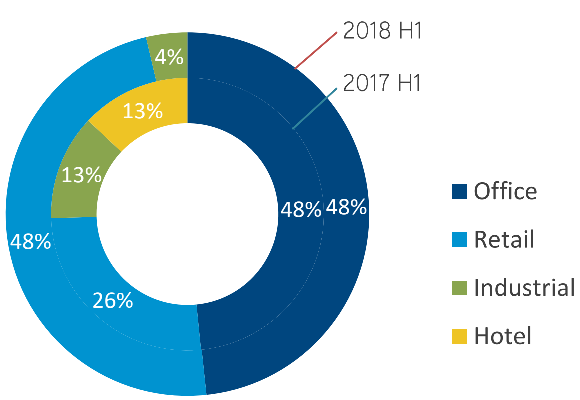
> Retail properties continued to gain even more significant market share this year through various portfolio deals and the sale of two significant strip mall type of assets, the Market Central Ferihegy and Premier Outlet Center in Biatorbágy.

Investment volume in 2014 – 2018 H1



Source: Colliers International

Share of sector by volume (2017 H1-2018 H1)



Source: Colliers International

Investors

- Similarly to last years, domestic investors were the most active purchasers representing 53% of all deals by volume and nearly 65% of the deal count.
- From the large Hungarian funds, Erste was the most active with the acquisition of Market Central Ferihegy and the adjacent Quadrum office building.
- Appeninn, Optima and MNB were also among the most active local investors.
- In terms of foreign capital, German and UK investors represented the largest market share, with 20% and 10% respectively in the first half of the year.

Transactions and yield evolution

- During the course of 2018 H1, mainly individual office and retail transactions were the key catalyst of the investment activity.
- However, fewer large deals were closed in 2018 H1 in comparison to the same period of the previous two years. During the first half of the only five transactions beyond the EUR 40 million ticket. year Colliers registered
- The transaction period is usually shorter than it was previously. Currently, deals are typically closed within 6 months, while in the last few years the average had been between 6 to 9 months and sometimes even 12 months. This pattern is in the interest of buyers, as market conditions are improving and quick reactions can lead to significant competitive advantages.
- Due to the strong investor interest, the market is characterized by strong seller position, especially on prime investment products.
- Prime yields are under pressure in all asset classes, we saw yield compression of 25 bps in the industrial sector during the first half of the year, while prime retail and office opportunities are being priced at a similar level as they were at the end of 2017.
- The typical prime office yield in 2018 H1 stood at 6.00%, prime retail (shopping centre) yields was at 6.00%, whilst top quality industrial/logistics properties traded at 7.5%.

Prime gross initial yields (2007- 2018 H1)

Source: Colliers International

Key transactions in 2018 H1

Name of property	Asset type	Buyer	Seller	Size (sq m)
Market Central Ferihegy	Retail	Erste Fund	AEG	44,000
Premier Outlet Center	Retail	REEF	Lone Star	23,500
Buda Palace	Office	MNB	Optima	13,500
Váci Greens D	Office	Private	Atenor	15,600
Népliget Center	Office	MCAP Global Finance	Marathon Asset Mgmt	25,760
Central Udvar	Office	Galcap	Goldman Sachs	16,620
Penny Market portfolio	Retail	Penny Market	Atrium	18,100

Source: BRF, Colliers International

Outlook

- We anticipate that the second half of 2018 will be significantly stronger than the first half of the year. However, we expect that the annual investment volume will be slightly below the level of last year.
- As a result of less investment opportunity in high-quality products and evidenced rental growth, further compression in yields is expected during 2018, however at a less intense rate experienced in the last two years.
- The market has already showed examples when the prime office yields in the case of top prime assets have already compressed below the level of 6.00%, such as the Eiffel Palace and Váci 1 deals.
- We can expect that prime office transactions will take place at a gross yield of 6.0% or even at a lower level during 2018.
- We also forecast that in 2018 H2 more deals with a higher ticket value will be closed than during the first half of the year. Due to the lack of opportunities in the prime segment it can be anticipated that there will be more transactions among the value-add properties especially in the office, retail and industrial segment.
- Beside the sale of MOM Park that will be finalized in Q3, we do not expect other significant shopping centres deal in 2018.
- Due to a serious shortage in product in the office sector, we anticipate a higher share of forward-sale deals in 2018, with high pre-lease rates.

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$2.3
billion in
annual revenue

180
million square meter
under management

13,000
professionals and staff

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