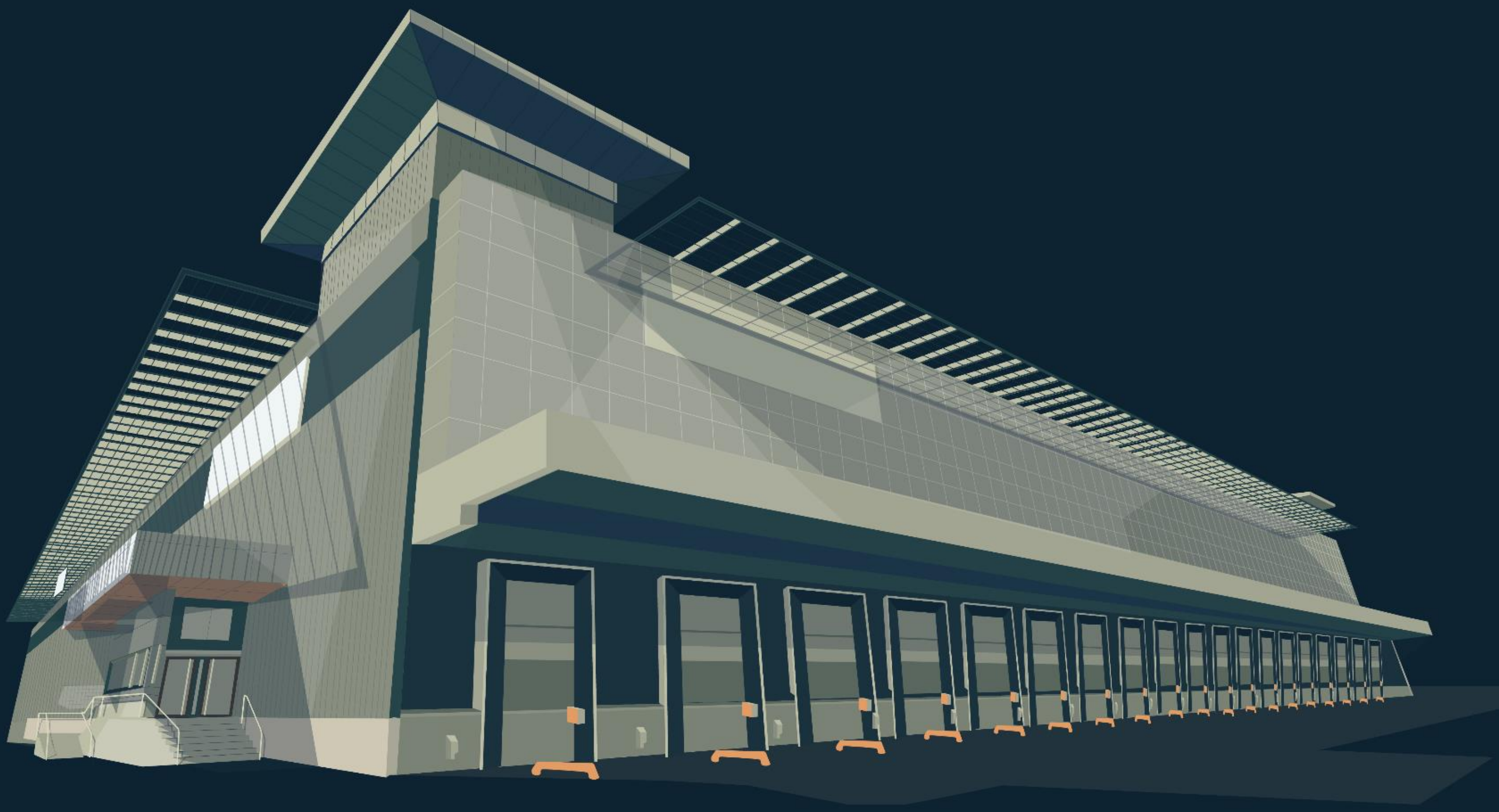
HUNGARY | Budapest and surrounding areas

INDUSTRIAL MARKET

2018 FULL YEAR



2018 MARKET SUMMARY

Due to the limited availability of vacant spaces, renewals dominated the Budapest logistics rental market also in the second half of 2018.

Vacancy rate in the Budapest region (the only liquid and measurable market) decreased further by the end of 2018 and reached a record-low average rate of 2.4%. This rate is even lower (2.1%) in the logistics parks along M0 highway while it is higher (5.1%) in case of city logistics.

Landlords expect quick decision-making from the tenants and their flexibility remained on a low level, while rent levels increased further. Market remained landlord-driven similarly to the previous years.

Due to the increasing development costs, the net headline rents of the expected new big box developments around Budapest are in the range of 4.75 - 5.5 EUR/sq m/month, and in certain special cases it can reach 6.0 EUR/sq m/month – similarly to the pricing of the limited number of city logistics buildings.

Many of the tenants have just identified the consequences of the high rents and the impact of the record-low vacancy rate and as a result of that tenants prefer shorter 3-years lease term versus long-term agreement. Tenants with manufacturing activities are exceptions as they are more „solution-oriented" and rather accept higher pricing.

Among the new leasing transactions – new lease or pre-lease – only two transactions exceeded the 10,000 sq m in size, while the average transaction size was approximately 3,300 sq m.

As a result of the crisis the industrial developer's market became highly concentrated. While before the crisis 10-20 developers were actively present on the market, nowadays only 4-5 developers remained active.

From developers / logistics point of view the market is still Budapest focused, while in case of manufacturing facilities countryside locations are rather preferred.

Similarly to the post-crisis period developers are still cautious with speculative projects, mainly due to the higher construction costs and the risk of any unleased spaces.

Developers rather focus on their pre-leases projects and they pay less attention to new land acquisitions or to pure speculative developments.

There is a limited number of available good quality warehouse / manufacturing buildings both in the Budapest region and in the countryside locations.

SUPPLY IN GREATER BUDAPEST

The industrial stock of Budapest stagnated between 2011-2014, but started to grow from 2015 and further accelerated from 2016.

120,600 sq m industrial development was handed over during 2018, which only slightly exceeds the volume of handovers of 2017 (118.700 sq m). The following industrial developments were handed over in 2018: 85,350 sq m BTS at Üllő Airport Logistics Center, 12,000 sq m BTS at Inpark Páty, 7,000 sq m BTS at Budapest Dock Szabadkikötő and 11,000 sq m speculative building at East Gate Business Park.

The modern logistics stock was 2.04 million sq m by the end of 2017, which reached 2.16 million sq m by the end of 2018 showing a steady growth.

More than 176,000 sq m new building is under planning / preparation phase in Q1 2019. Approximately 110,000 sq m will be speculative and 66,000 sq m pre-lease – with a typical building size of 10,000 – 20,000 sq m – which are expected to be handed over by Q4 2019. Beside the aforementioned pipeline, additional developments could be expected even as pre-leases or speculative.

The increased development timing frequently results delays the handovers of new projects. Several planned projects has been postponed due to the increased construction costs that – in order to maintain profitability – would require such a high rent level, which makes developers sceptical with its acceptance by the occupiers. Additionally, the logistics market in Budapest is - by international standards – more illiquid.

The most popular development location is the southern section of M0 highway, followed by the western and eastern region of Budapest and eventually the northern section of M0.

Most of the developer-owned plots have been already built-in by the existing projects, hence developers shall acquire additional middle-sized (5-10 ha) plots in order to ensure opportunities for new built-to-suit, pre-lease and middle-sized speculative projects.

Several tenants have just faced the effects of high rents and record-low vacancy rate.

FIGURE 1:
CHANGE IN STOCK (2005-2018)

**the stock growth from H2 2010 to H1 2011 is due to the BRF harmonization.*

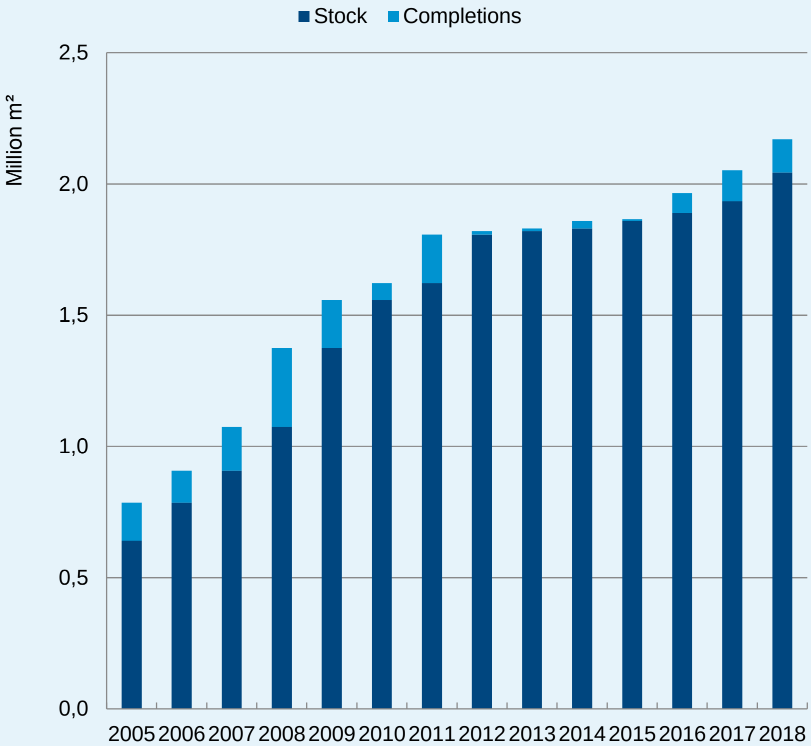
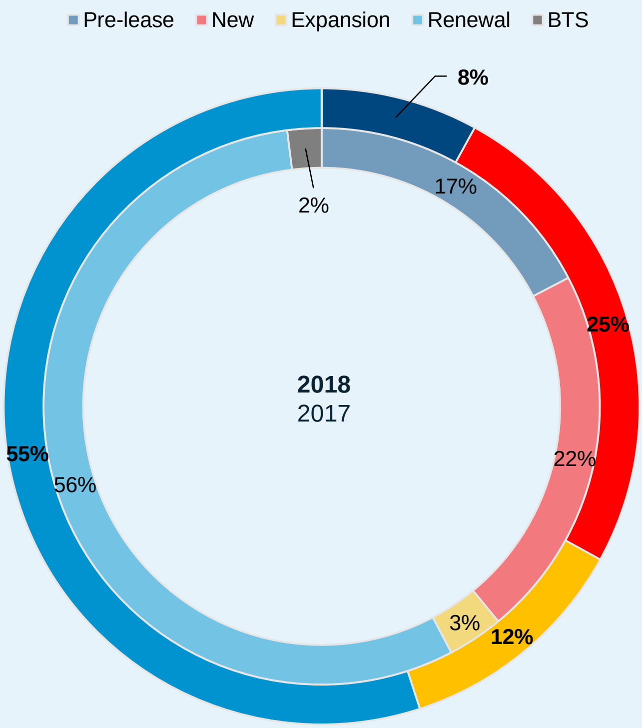


FIGURE 2:
TYPE OF TRANSACTIONS IN GREATER BUDAPEST (2017-2018)



Sources: Figure 1: Colliers International | Figure 2: Colliers International

DEMAND IN GREATER BUDAPEST

In 2018, the total leasing activity accounts to 378,000 sq m, out of which the renewal deals contributed with 206,600 sq m, hence the net take-up amounted to 171,300 sq m, out of which 70,400 sq m leased area is attributed to logistics companies.

The volume of net take-up at the end of the year decreased with 37% in comparison to the net take up realized in 2017 (273,400 sq m). The renewal type of transactions still dominated the market with a share of 55%, similarly to the previous years. One of the main reasons behind this trend is the lack of available existing space and the higher rents in the new projects.

The net absorption in 2018 was 153,400 sq m, which remains slightly below compared to the absorption realized in 2017 (165,200 sq m), which can be explained by the lack of available leasable area.

The demand is typically driven by the need for good quality 1,000-2,000 sq m units. In case of the absence of suitable alternatives, tenants often reconsider their strategy and return with completely different preferences or sometimes even postpone their projects.

The acquisition market is in similar position: limited number of good quality premises can be found on the market, while both Budapest and the countryside market can be characterised by relatively high demand. Therefore, properties with good quality on reasonable price change hands quickly.

An existing, good quality, however overpriced industrial property can be a more attractive option in comparison to a new development, because even at an overpriced level with the necessary refurbishments, the overall cost is lower than a newly constructed building. Additionally, it is available in a shorter period compared to a new project.

In 2018 among the 5 largest new leasing transactions – new lease or pre-lease – only 2 transactions exceeded the 10,000 sq m size.

VACANCY AND AVAILABILITY

Approximately 91% of the stock in Budapest is located in logistics parks (big box) while approximately 9% is city logistics type of property.

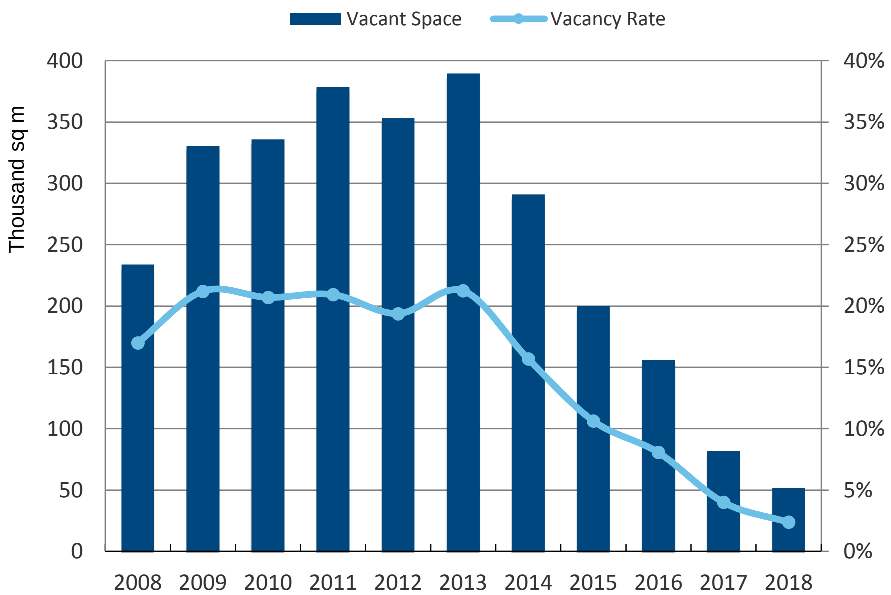
The pre-crisis 9% vacancy rate increased to 21% by 2013. Since 2014 the vacancy rate has been decreasing constantly and stood at a record-low level of 2.4% by Q4 2018. 2.1% vacancy rate can be found in logistics park (big box) and the 5.1% vacancy rate in city logistics buildings in Budapest.

By the end of the year 51,840 sq m industrial / logistic space remained vacant and only one building could offer more than 5,000 sq m vacant space. Due to the limited supply it is especially challenging to fulfil the demand for significant logistics / industrial areas.

A regularly seen phenomenon in the industrial parks around Budapest is that when a leased area becomes vacant, the neighbouring tenants immediately express their needs for it, hence the unit is practically not coming to the market.

FIGURE 3:
CHANGE IN VACANCY VACANCY RATE (2008-2018)

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



The average vacancy rate decreased further by the end of 2018, reaching a record-low level of 2.4%.

Sources: Figure 3: Colliers International

RENTS AND RENTAL PERIODS

Headline rents in greater Budapest are 4.25 – 4.5+ EUR/sq m/month for existing big box logistics. In case of standard, new big-box developments, the rents are between 4.75 – 5.5 EUR/sq m/month, however in certain special cases it can reach the 6.0 EUR/sq m/month.

Headline rents for existing city logistics are 4.5 – 5.0 EUR/sq m/month, while in case of new city logistics developments, the rents are between 5.0 – 6.0 EUR/sq m/month.

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. When it comes to pre-lease / BTS industrial buildings the minimum is 5+ years, but 7 – 10-years are preferred, while in the countryside with specific technical requirements the minimum rental period is 10+ years.

The service charges are ranging between 0.65 – 1.10 EUR/sq m/month. At first sight the range seems to be rather wide, however it should be noted that the difference mainly comes only from the different calculation method of the landlords. For this reason, it is worth to clarify what is included in the service charge (i.e. property tax, insurance, property management fees and guarding services, etc).

PRICE OF DEVELOPMENT PLOTS

The stagnating asking prices of development lands are in the following ranges:

- Prime locations (for instance: highway around Budapest) that are ready for development: ~30 – 40 EUR/sq m
- In special cases (e.g. if zoning/location is suitable for retail function): 50+ EUR/ sq m.
- Secondary locations or plots that needs further preparation to become ready to develop : ~10 – 25 EUR/sq m.
- In smaller industrial park on the countryside / tertiary locations: ~5 – 15 EUR/sq m.

Due to Hungary's terrain and transportation features, there are plenty of land suitable for development, despite only a limited number of well-prepared development land can be found around Budapest, which is at least 5 – 10 hectares. Above 20 ha, it is extremely difficult to find a plot without any problems (e.g.: clear freehold / unencumbered). Similar problems occur in the "quasi" industrial parks on the countryside, which exist on paper while in the reality they are mostly unprepared agricultural areas designated for industrial park.

Typical problems with plots for sale that they often require additional development of public utilities, or they may not be exempted from agricultural use, or the zoning plan does not allow a proper built-in ratio. These problems prolong or halt the implementation of a proposed project, and restrain the speculative land acquisitions.

INDUSTRIAL MARKET ON COUNTRYSIDE LOCATIONS

The vacancy of industrial buildings outside of Budapest is harder to track – apart from a few speculative warehouses – and the occasional supply and demand accounts for only a small fraction of the overall market.

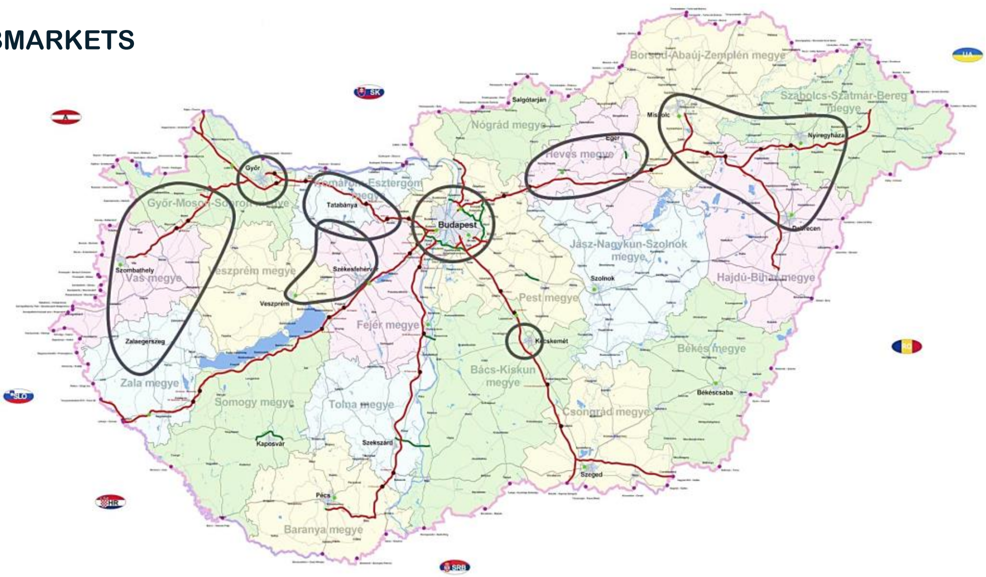
Recently developed standard industrial properties on the countryside have higher variation in terms of net rental value compared to Budapest region. In case of manufacturing facilities, the prices start on 5.0 - 6.0 EUR/sq m/month, but the extra technical requirements can increase it significantly.

In terms of acquisition prices it is difficult to provide an indicative benchmark, because high-quality industrial properties come to the market only occasionally and the level of technical specification is very complex. Although, we can state that a typical good quality industrial manufacturing facility is in the range of 300-400 EUR / sq m.

Nowadays, more and more rural regions are considered as growing sub-markets, creating more multipolar industrial / logistics markets – similarly to the neighbouring more mature countries. This trend is especially visible among the location preferences of assembling / producing manufacturing companies, who prefer to be in the vicinity of OEM automotive companies.

The below outlined regions in the picture become slowly more and more saturated regional submarkets, which also have a serious labour shortage. As a result, the importance of southern regions (e.g. Pécs, Szeged) is increasing. However, the southern area of Hungary is not industrialized, there is no automotive manufacturing activity or available modern logistics / manufacturing buildings, furthermore the adequate labour supply from technical vocational institutions is missing.

FIGURE 4:
REGIONAL SUBMARKETS



Sources: Figure 4: Colliers International

INDUSTRIAL/LOGISTICS INVESTMENT MARKET

The investment volume of the industrial / logistics assets reached EUR 150 million in 2018, which consisted of 3 larger industrial transactions totaling 330,000 sq m of space.

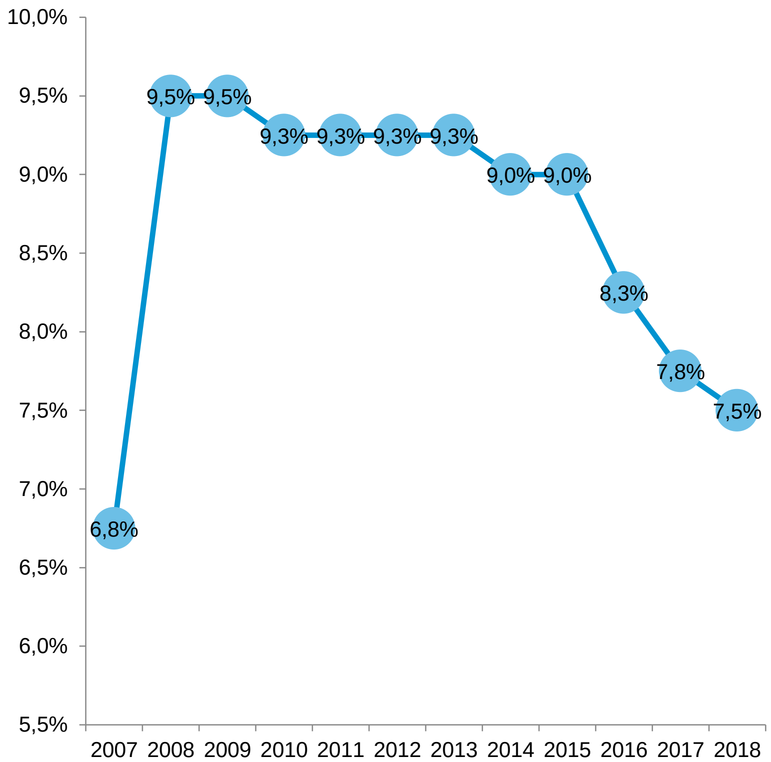
The capital value of the closed „A” class building transactions were within the range of 410 – 550 EUR/sq m.

The average transaction size has been continuously increasing during the last two years, however there is a shortage of good investment products.

85% of the speculative industrial stock in Budapest and its surroundings is owned by the 10 largest investors / developers, out of which the 5 largest investors / developers own the 65% of the speculative stock.

The prime yield of industrial / logistics 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%.

FIGURE 5:
PRIME GROSS INITIAL YIELDS OF INDUSTRIAL / LOGISTICS ASSETS (2007 - 2018)



Sources: Figure 5: Colliers International

INDUSTRIAL MARKET ON COUNTRYSIDE LOCATIONS

The vacancy of industrial buildings outside of Budapest is harder to track – apart from a few speculative warehouses – and the occasional supply and demand accounts for only a small fraction of the overall market.

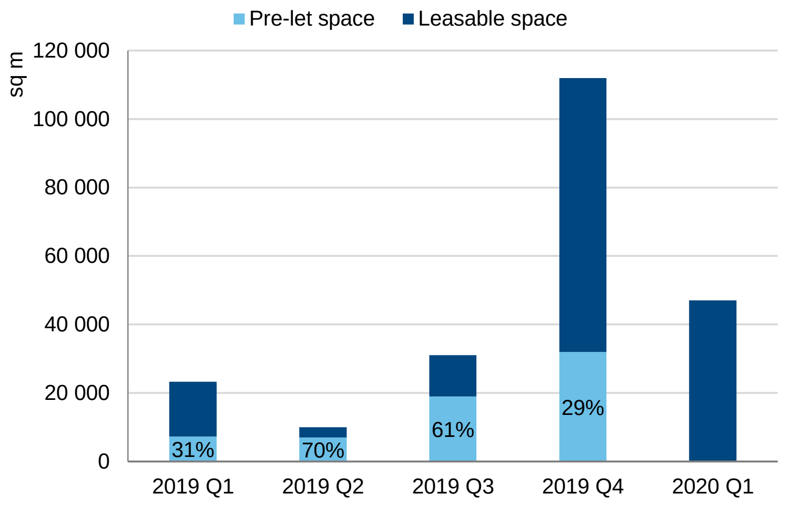
Recently developed standard industrial properties on the countryside have higher variation in terms of net rental value compared to Budapest region. In case of manufacturing facilities, the prices start on 5.0 - 6.0 EUR/sq m/month, but the extra technical requirements can increase it significantly.

In terms of acquisition prices it is difficult to provide an indicative benchmark, because high-quality industrial properties come to the market only occasionally and the level of technical specification is very complex. Although, we can state that a typical good quality industrial manufacturing facility is in the range of 300-400 EUR / sq m.

Nowadays, more and more rural regions are considered as growing sub-markets, creating more multipolar industrial / logistics markets – similarly to the neighbouring more mature countries. This trend is especially visible among the location preferences of assembling / producing manufacturing companies, who prefer to be in the vicinity of OEM automotive companies.

The below outlined regions in the picture become slowly more and more saturated regional submarkets, which also have a serious labour shortage. As a result, the importance of southern regions (e.g. Pécs, Szeged) is increasing. However, the southern area of Hungary is not industrialized, there is no automotive manufacturing activity or available modern logistics / manufacturing buildings, furthermore the adequate labour supply from technical vocational institutions is missing.

FIGURE 6:
INDUSTRIAL SPECULATIVE DEVELOPMENT PIPELINE (2019 Q1-2020 Q1)



Sources: Figure 6: Colliers International

FOR MORE INFORMATION

INDUSTRIAL OCCUPIER SERVICES

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

Csaba Dobos
Senior Associate
Industrial Agency | Hungary
Mob +36 30 289 9010
csaba.dobos@colliers.com

RESEARCH

Gertrud Hausenblasz
Associate
Research Analyst | Hungary
+36 70 702 8626
gertrud.hausenblasz@colliers.com

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

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