



HUNGARY

INVESTMENT MARKET

2019 FULL YEAR MARKET REPORT



DEAL VOLUME & TRENDS

The investment activity remained exceptionally strong in 2019 as well, exceeding EUR 1.8 billion. The annual investment volume reached a slightly lower level in 2019 in comparison to 2018.

2019 was the fourth consecutive year when the investment activity was strong, and the annual volume exceeded 1.6 billion. The demand by investors become even stronger in comparison to last year, hence the reason behind the slightly lower volume is the undersupply of institutional grade stock.

Based on our observation larger individual and some portfolio deals were the driver of the volume in 2019 as well. Colliers registered deals average volume close to EUR 30 million per transaction which remains below the EUR 37 million registered in 2018.

Office remained the most sought-after asset class followed by the retail. Surprisingly, the hotel sector overtook the third place with 17% share, while industrial was down to 2% from the average of 10%.

The capital appreciation has further accelerated thanks to continuous yield compression and rental growth throughout 2019. The yield compression in Budapest was more profound during the last three years in comparison to its main peers in the region such as Prague and Warsaw. Currently, prime office yields are standing at 5.00% that is 75 bps decrease since the end of 2018. We are not expecting only a modest 25 bps further compression in this sector in 2020. Yields on prime logistics may see a drop by 25 to 50bps to 6.50-6.75%, however there is a lack of such asset in the industrial real estate market.

Significant money inflow to the domestic property funds until the end of H1 2019, new market entrants and favorable financing conditions were the pillars of the Hungarian commercial property investment success story in 2019.

FIGURE 1:
INVESTMENT VOLUME IN 2014-2019

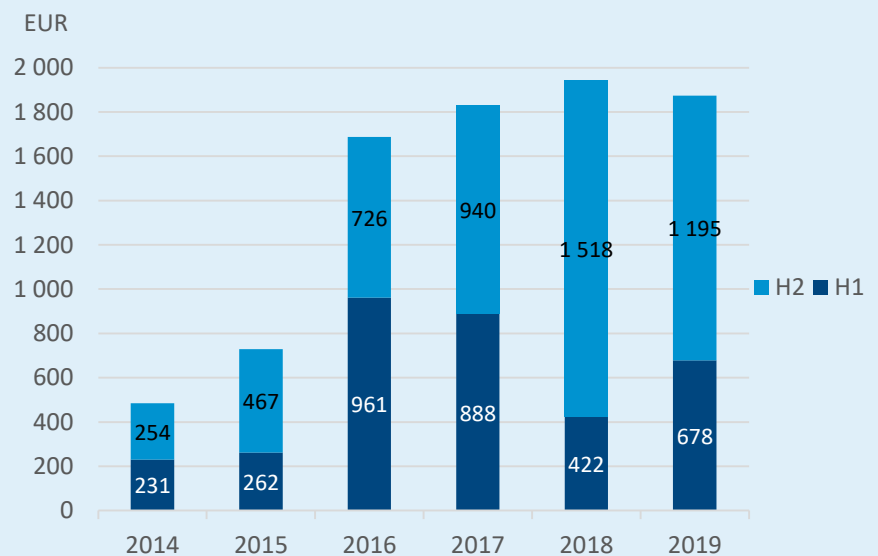
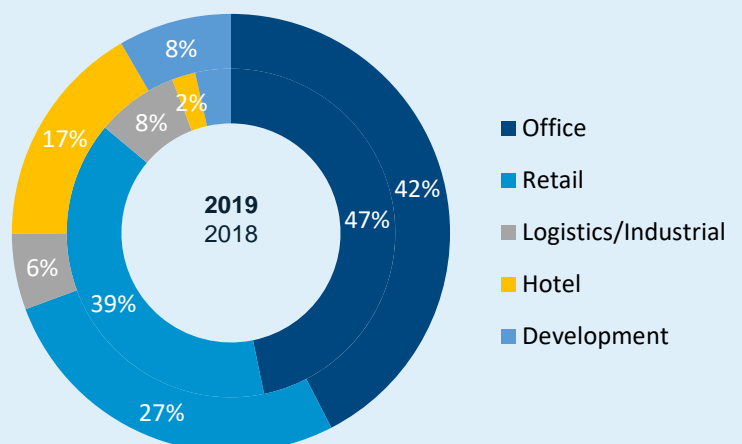


FIGURE 2:
SHARE OF SECTOR BY INVESTMENT VOLUME (2018-2019)





INVESTORS

Similarly, to previous years, 2019 was also dominated by local capital with an approximate two third share from the total volume. This trend is notable for two years while in 2016-2017 only 35-38% share was registered. Not only the three large retail funds (Erste, OTP and Diófa), but also closed-end funds and private partnerships made a significant contribution to the investment activity. A significant 25% share of the total volume is attributed to Indotek, a local fund which is rapidly expanding its portfolio in all sectors.

Large local pool of investments certainly create liquidity, however give the long-term investment horizon of most Hungarian buyers, this may jeopardize future supply and churn of investments. Not only the three major retail fund managers, but also the closed-end funds and private partnerships made a major venturing into real estate. The new bond program backed up by the National Bank is also providing a boost to local investors by providing funding at a very low margin.

However, local retail funds experienced large scale redemptions in the last six months following the recycling of investors and shifting funds into the Hungarian Government Security Plus scheme. Furthermore, the retail funds become less liquid due to the new regulation that states a 6 months redemption period for new investments. This new regulation with the simultaneous launching of the Hungarian Government Security Plus scheme withhold further influx to these funds.

The most significant deals over the year among others were the sale of 3 Metro C&C stores in Budapest, which was a very long-term S&L transaction. The S&L opportunities with large size and quality is rarely available in Hungary. Colliers also sold a logistics portfolio (85,000 sq m) with assets in the Budapest market as well as on the countryside. This was the largest logistics deal of the last year and the investor origins from Asia. In terms of office sector transaction, the sale of Roosevelt 7/8 appeared to be the most expensive sale of a premium office building in Budapest with the sharpest yield ever recorded in Hungary. Besides, there were significant deals along the Váci Corridor, such as the White House and the sale of Advance Tower 1-2 to Erste Fund.

Looking back to the major transactions of 2019, the more opportunistic/value-add local investors/developers, Indotek acquired three retail properties of Klepierre portfolio and the Gellért Hotel, while Wing purchased Infopark B,C,I buildings.



In 2019, two third of the deals were completed by local investors and Indotek alone secured one fourth of the total investment volume.





TRANSACTIONS AND YIELD EVOLUTION

In 2019 Colliers tracked 66 transactions, out of which more than 10 transactions were over 50 million EUR ticket size.

The strong buyer interest appears to be placing vendors in the ascendancy, especially concerning prime investment products. In 2019 the largest individual transactions were closed in the office, hotel and retail sector. Additionally, there were some significant portfolio transactions as well during the year such as the Klepierre retail portfolio and the sale of the three Metro cash & carry units.

The pool of the international investors was quite fragmented with no single dominant market. The largest share in 2019 were from Germany, China and Austria with the share of 7%, 5% and 5% respectively. Investors from China and South Korea become much more active in the region during the previous two years.

On the sell side, the local vendors were also the most active with one third share. While from international sellers USA (16.0%) Germany (15%) and France (11%) vendors were the most active in 2019.

The lack of quality opportunities for sale means Budapest prime yields are under pressure in all segments. We registered a 25-75-basis point prime yield compression among the property segments, since the end of 2019. The most significant compression was registered in the office market (75 bps) followed by the industrial (50 bps) and the retail/shopping center sector with 25 bps.

Due to the strong interest in the hotel sector, we have also registered significant downward pressure on yields in this segment, especially by city hotels in downtown locations. In the case of hotels with fixed long-term lease, we registered transactions closing on 6.0% yield, while by the end of the year this has even compressed further.

Currently, prime office yields are standing at 5.00% and we are not expecting shocking further downward moves. Yields on prime logistics may see a drop by 25-50 bps to 6.50-6.75%, however there is a lack of such asset on the industrial real estate market. We expect that prime shopping center yields will remain stable in the upcoming period.

We observe that liquidity provided an impetus for investors and developers alike. Evidence of the market's dynamism is that deals are typically closed within 6 months presently, while in the last few years that average was between 6 to 9 months and sometimes stretching to even 12 months.

FIGURE 3:
PRIME GROSS INITIAL YIELDS (2007-2019)

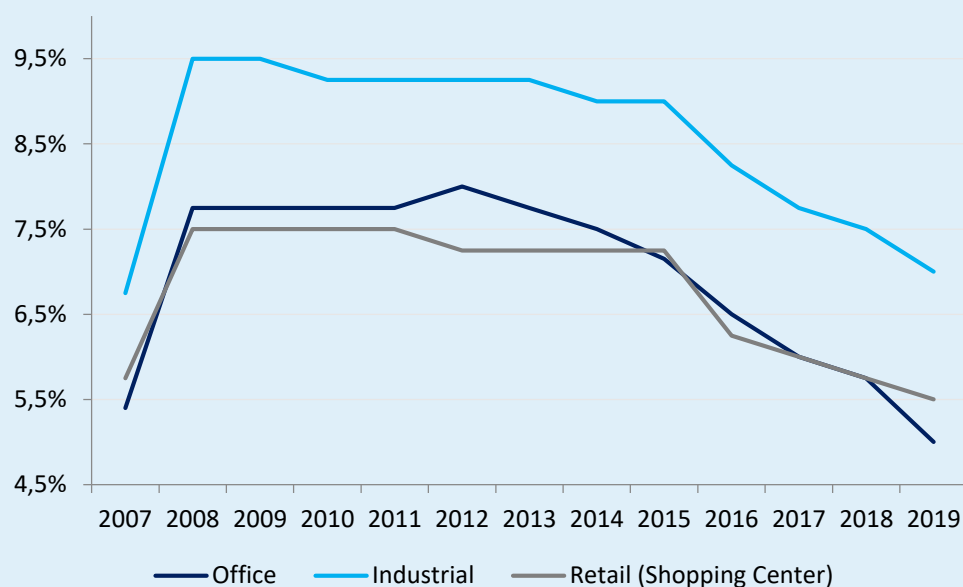


TABLE 1:
KEY TRANSACTIONS IN 2019

Name of property	Asset type	Buyer	Seller	Size (sq m/room)
Infopark B, C, I	Office	Wing	HGA Capital	30,200
Andrássy út 11, 12	Office	AEW Europe	HGA Capital	7,800
Advance Tower 1.	Office	Erste Fund	Futureal	12,300
Aerozone	Industrial/Logistics	JT Ross	M7 Real Estate	60,000
Gellért Hotel	Hotel	Indotek	Danubius Hotel	234
Hotel Parliament	Hotel	Echo Partners AG	Continental Group	65
Hotel Palazzo Zichy	Hotel	Echo Partners AG	Continental Group	80
Vörösmarty Luxury Department Store	Retail	AEW Europe	MNB	3,000
White House	Office	Warburg-HIH Invest	GTC	21,564
Nordic Light Trio	Office	JR AMC	Skanska	14,000
Metro Portfolio	Retail	FLE	Metro	50,700
Váci Greens E	Office	MEFG	Atenor	22,500
Váci Greens D	Office	Equilor	MEFG	15,700
Klepierre Retail Portfolio	Retail	Indotek	Klepierre	111,700
Roosevelt Center	Office	OTP Fund	GLL	28,900
M7 Portfolio	Industrial/logistics	CGL	M7 Real Estate	85,000
Hermina Towers	Office	Indotek	Hallmark	16,500
Köki shopping center	Retail	Adventum	RCO	58,000
Twin Center	Office	MFB	S-Immo	7,200
Advance Tower 2.	Office	Erste Fund	Futureal	7,800
Corner 6	Office	CBRE GI	Goldman Sachs	6,800

OUTLOOK AND FORECAST

The economic expansion in Hungary is likely to continue in 2020, though at a more moderate pace than in 2019. We expect that the low interest rate environment will remain with favorable terms of financing, thus fostering investment activity.

Considering the massive development pipeline for the office sector, in 2020, we expect the dominance of office deals will further increase. Due to the product shortage in the office sector, we anticipate that the number of forward-sale deals in 2020 will increase.

As a consequence of the strong yield compression in the core segment, we expect more attention from investors towards value-add opportunities. We believe that the products in these segments are still reasonably priced and a notable capital appreciation can be realized through appropriate asset management. We foresee further slight compression in yields, but mostly in the core segment.

We don't see major uplift in the retail investments, as this asset class has a negative sentiment recently. Also, the current ownership situation of the critical assets will prohibit larger level of deals.

In the industrial sector there is a shortage of investment grade product, hence we don't see that investment volume will increase significantly in the upcoming year.

We expect more deals to be closed in the hotel segment in 2020 as well, due to the strong uplift in the tourism industry and the consequent hotel development boom.

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COVID-19

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