Research & Forecast Report

HUNGARY | INDUSTRIAL
2018

Industrial Market

2017 market summary

Countrywide

> In 2017, the demand in the Hungarian industrial and logistics sector was mainly driven by the automobile, electronics and logistic companies.

> Large requirements (20,000+ sq m) dominate the market, but there is a shortage in the market even for areas 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 industrial supply, renewal deals dominated the Budapest leasing market in 2017 as well.

> 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 construction periods have increased to 8-10+ months .

> Due to the saturation of the Budapest market, the countryside locations are increasingly becoming the focus of investors/developers, hence the market is becoming more multipolar.

> Countrywide industrial and logistics demand is driven by the expansion of domestic players and simultaneously by the foreign newcomers (FDI) as well.

Budapest

> There is a record-low vacancy rate in Budapest with 4.0% (3.9% in the logistic parks and 5.1% in city logistics).

> The largest tenants in Budapest and its surroundings came from the retail sector, the logistics companies represented 24% of the total net take up.

> 118,700 sq m new industrial/logistics area was handed over in 2017, while in 2016 it was only compared to 67,011 sq m in 2016.

> Top 5 investors and developers own approximately two-thirds of the speculative industrial stock.

> New players usually enter to the market through acquisitions.

> The most active investors and developers in terms of aquisition during this year were CTP (132 000 sq m), China Investment Corp with the acquisition of Logicor portfolio (131 000 sq m) and M7 Real Estate (113 000 sq m) in 2017.

Supply in greater Budapest

> The industrial stock stagnated between 2012 and 2014, but started to grow again in 2015 and further accelerated in 2016.

> Development activity shifted into a positive direction. In 2017 ten new projects were handed over, with 118,700 sq m new space, that is 50% more than in 2016.

> Compared to 2016, the modern logistics stock grew with 6%, thus reaching 2.04 million sq m by the end of 2017.

> Based on the BRF information ~130,000 sq m is under consruction or planning which will be handed over in 2018.

> Out of these new developments, 90% of the space is already occupied, either built in a BTS concept or pre-leased.

> Besides the aforementioned confirmed handovers, additional pre-leases or speculative industrial developments are expected in 2018-2019.

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

Demand in greater Budapest

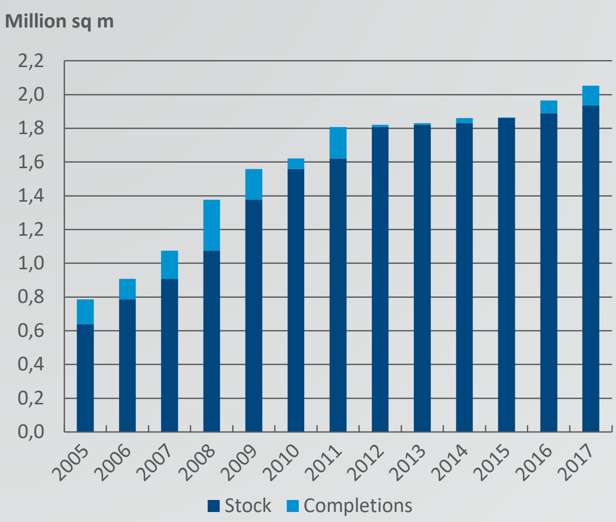
- The total leasing activity was 617,625 sq m in 2017, renewal deals contributed 344,242 sq m (56%) and the net take-up amounted to 273,383 sq m (44%).
- The distribution of total demand shows a similar picture as in 2016, consequently the renewal type of transactions still dominate the market.
- The volume of net take-up (BTS, pre-lease, new, expansion) was approximately 30% higher in 2017, than it was in 2016.
- In 2017, the pre-lease transactions contributed to a higher 44% share of the net new take-up in 2017 due to the lack of space / speculative supply.
- The net absorption was 165,228 sq m, while in 2016 it was only 97,607 sq m.
- The rapid increase in e-commerce will require additional warehouse buildings, which will result in the development of more industrial halls in greater Budapest.
- The demand is typically driven by large 20,000+ sq m or smaller 1,000-2,000 sq m requirements.
- Potential tenants have clear preferences regarding the location and they are quite inflexible in changing it.
- 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.

Colliers was involved in the following significant leasing/sale transactions in 2017

Vendor/ Landlord	Building Location	Buyer/ Tenant	Size (sq m)
Jacob Douwe Egberts	Budapest, XV.	n.a.	35,000
Scanfil	Biatorbágy	Reál	15,450
Mile	Herceghalom	Sofidel	11,300
CTP	Biatorbágy	GSI Agco	11,000
Mile	Herceghalom	Transdanubia	7,800 8,400

Source: Colliers International

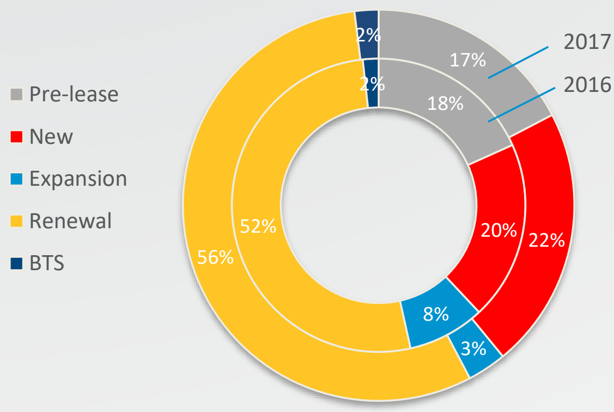
Change in stock 2005-2017



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

Source: BRF, Colliers International

Type of transactions in greater Budapest 2016-2017



Source: BRF, Colliers International

Transactions over 20,000 sq m in greater Budapest in 2017

Buildings	Tenant/Sector	Size (sq m)	Type of deal
BILK	Waberer's	95,000	Renewal
Üllő Airport Logistic	Auchan	81,000	Pre-lease
Prologis Park Budapest - Üllő	Auchan	37,500	Renewal
Prologis Park Budapest - Batta	CEVA	28,500	Renewal
Prologis Gyál	GE Hungary	20,800	Renewal
Prologis Park Budapest - Sziget	UTI	20,500	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.

> The vacancy rate in logistics park (big box) stood at 3.9%, while in city logistics buildings it was 5.1% in Budapest.

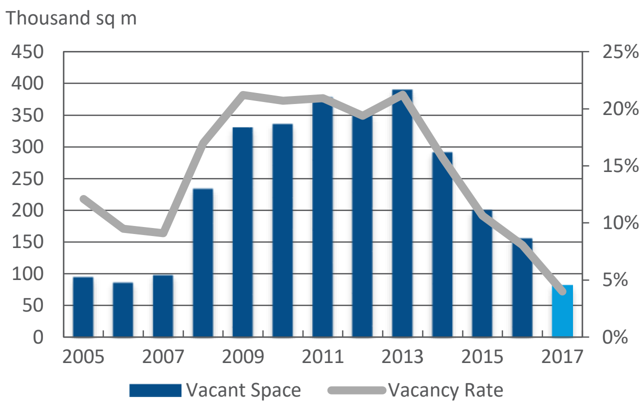
> The vacancy rate also shows a different picture among the Budapest submarkets, in the areas north-east of the city it stood at 5.8%, while in the south it was 2.6% and 6.9% in the west.

> 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 2017, only three 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 (2005-2017)



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

Source: BRF, Colliers International

Rents

> Headline rents have slightly increased in 2017 to €3.8 - 4.2/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.

> Net effective rents continued to be typically 5-10 % lower than the headline rents in case of long-term lease.

> The rents of (pre-lease, but especially BTS) single-tenant buildings can be significantly higher than the aforementioned specified range and can have less flexible terms, due to the lack of well-prepared development land, increased construction costs, and higher specifications.

Price of development lands

> Based on our benchmark data the price of development land would fall into the following ranges:

> Favorable locations that are ready for development: ~30-35 EUR/sq m.

> Less favorable locations that need further preparation to become ready to develop: ~25 EUR/sq m.

> Prime locations, plug and play immediately ready to develop land parcels: ~50+ EUR/sq m.

> Countryside industrial parks: ~10/15-30 EUR/sq m

Investment market of industrial/logistics assets

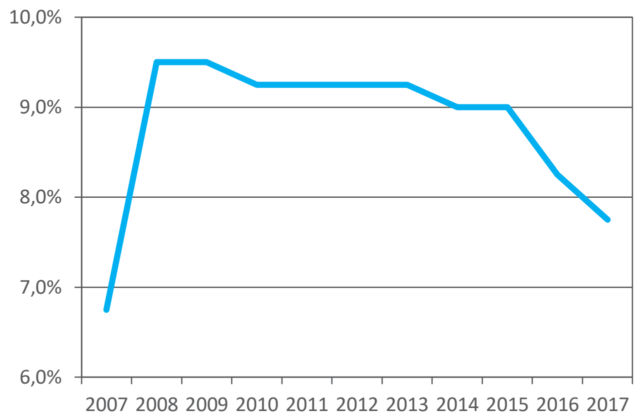
> The prime yield of industrial/logistic assets has decreased significantly, with 125 bps, during the last two years, as it stood at 9.0% in 2015 and it is currently stands at 7.75%.

> The investment volume of the industrial/logistic assets reached EUR 235 million in 2017 that is a significant increase compared with 2016 when it was EUR 186 million and close to a four fold increase since 2015 when it stood at EUR 63 million.

> Additionally, the average deal size has almost doubled during the last two years.

> Typical capital value of class „A" industrial building is 400- 600 EUR/sq m.

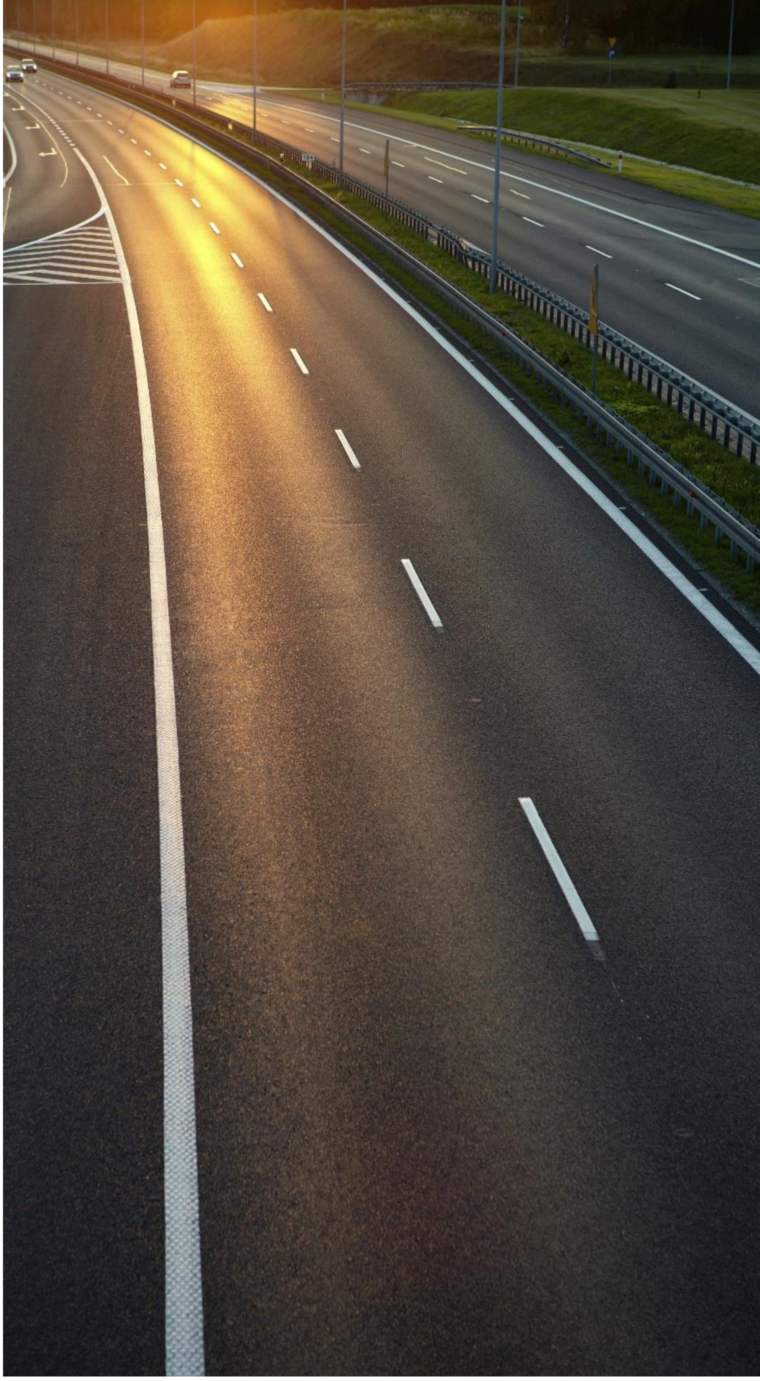
Prime gross initial yields of industrial/logistics assets (2007- 2017)



Source: Colliers International

Outlook for 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, 130,000 sq m of new developments will be handed over in 2018, however, 90% of this has already been pre-leased or prepared in BTS concept.
- 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.
- 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 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 finaly M3).
- Due to the saturation of the industrial market in Budapest, Colliers expects that top developers will become more inclined to launch BTS and S&LB (Sale & Leaseback) and pre-lease projects even outside of the capital city.



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