Accelerating success.

2020 Full Year

# Hungary Investment Market

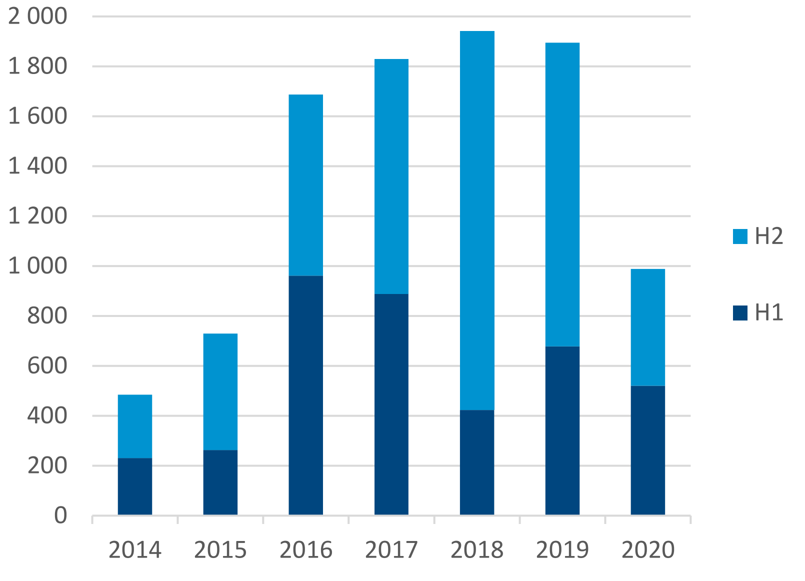
# Deal volume & trends

As a result of the pandemic that created uncertainties in many sectors, the investment market remained less active throughout 2020 in comparison to previous years. The investment volume reached EUR 988 million which represents a 48% decrease year-on-year. The drop in activity was mostly influenced by pricing mismatch in the most traditional investment sectors including offices, hospitality and to the greatest extent: brick and mortar retail.

Colliers recorded a good number of deals, however given pricing considerations and the inability of international capital to underwrite significant deals due to travel restrictions.
Transactional activity, as always, picked-up considerably in Q3 and Q4 2020 promising a stronger start to 2021.

New lending typically has become more expensive with less favourable conditions for buyers. The margins have increased by 20-65 bps and LTVs are also under pressure. The clear focus for banks, similarly to investors, is the sustainability of the underlying income and tenant risk. Debt underwriting has also been prolonged with extensive due diligence activity required by banks holding back deals from quick completion.

**FIGURE 1:**
**Investment volume in 2014-2020 (€ Millions)**




Yields across most asset classes are under scrutiny and in principle have gone up by 25-50 bps, however, the low global interest rate environment and wall of capital creates favourable condition for the property investment market. Looking at 2021, Colliers anticipate an uptick in transaction volumes and maturing yield levels. The most interesting asset class for investors will remain logistics and industrial alongside the housing sector.

Increasing popularity is evidenced in unorthodox sectors such as NPLs or other alternative classes such as healthcare and data centres, but properties of such in Hungary are short in supply. As for offices, the occupational market will be of key importance with vacancy already in the double-digit territory set to grow even further. Regardless, key assets in strong locations and of robust tenant credit will remain in demand.

Sources: : Colliers International

# INVESTORS

Local capital, as in the last four years, remained the main source of investments accounting for 59% of deal value. The main source of Hungarian investors appeared to be closed-end funds, listed and private vehicles replacing the traditionally busy open-ended funds. The retail funds started building up their ammunition towards the second part of the year following large scale redemptions due to investment reshuffling by participants pre-Covid. Furthermore, the retail funds became less liquid due to a new regulation stating a 6 months capital deployment period for new investments.
The new bond program, backed up by the National Bank, is also providing a boost to local investors by providing funding at low coupon rates.

The most significant transactions over the year, among others, were the transaction of Spirál office building purchased by MFB, the Hungarian leg of GTC by Optima/National Bank of Hungary and the sale of Váci Greens F office building.

The trend of domestic capital controlling the Hungarian investment scene is albeit on the change. As evidenced, Hungarian capital has been increasingly finding its way into the internationally dominated Polish market, as well as other regional markets, leaving more room for international equity to venture into Hungary.

There were also examples of more opportunistic/value-add transactions by local and international investors including the sale of Rumbach Center, Laki office building and Henkel's former HQ in Budapest.

In 2020, German investors represented 18% of the total investment volume on the buy side coming in second. Chinese investors are especially interested and active in the industrial and logistics sector as well as office, although the later through indirect deals. South Korean investors are also chasing logistics and offices in Budapest.

Going forward, we are likely to see a stronger overlap of investors in Hungary and the Czech Republic as well as Poland, given the discreet volume of domestic capital flagged for investments. 2021 is also expects to record larger proportion of outside capital deployed in Hungary.

*In 2020, 59% of the investment volume was transacted by local investors, with Optima alone securing one fourth of the total investment volume.*

Sources: Colliers International

## Transactions and yield evolution

With an even higher share, offices remained the most frequently traded asset class during 2020. Colliers registered four investment transactions exceeding the €50 million mark and three additional deals exceeding €30 million last year.

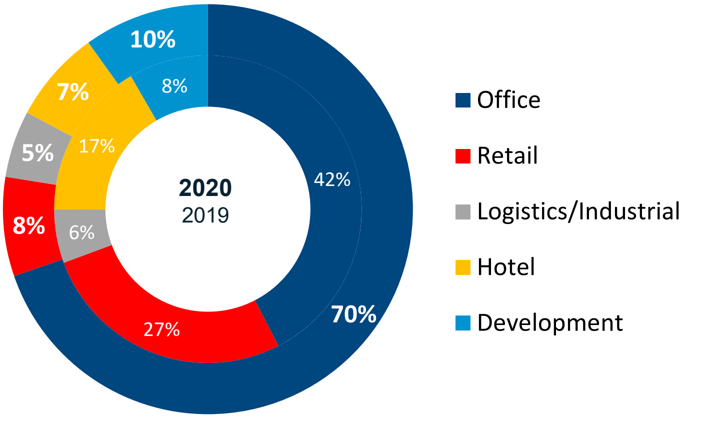
The investment volume reached €988 million in 2020 which remains 48% below the level reported in the previous year. The office sector made up 70% of the total volume, which was followed by development land transactions with a 10% share; followed by retail with 8% and finally, by the industrial sector with a 7% share.

There was a repricing of commercial real estate, especially on the buyer's side with hotels and most retail assets being affected the worst. The uncertainty caused by the Covid-19 pandemic had an impact on yield expectations as well, especially on the properties in the hotel and retail segment, while prime offices in core locations were the least impacted. Industrial and logistics assets are seen as the real 'winner' of the crisis given massive occupational demand for new space, leading to price appreciation.

There is no wide consensus on where cap rates on shopping centers or hotels will land, hence each opportunity will need to be thoroughly analyzed.

The market had been increasingly characterised by a strengthening of sales positions in recent years, especially for "prime" office and retail investment products. Typical "prime" yields at the end of 2020 were 5.25% in the office sector, 6.25% in the retail sector (shopping malls), while in the modern industrial and logistics properties was in the region of 6.75-7.00%.

**FIGURE 2:**
**Share of sector by investment volume (2019 - 2020)**




Sources: : Colliers International

**FIGURE 3:**
**Prime gross initial yields (2007-2020)**

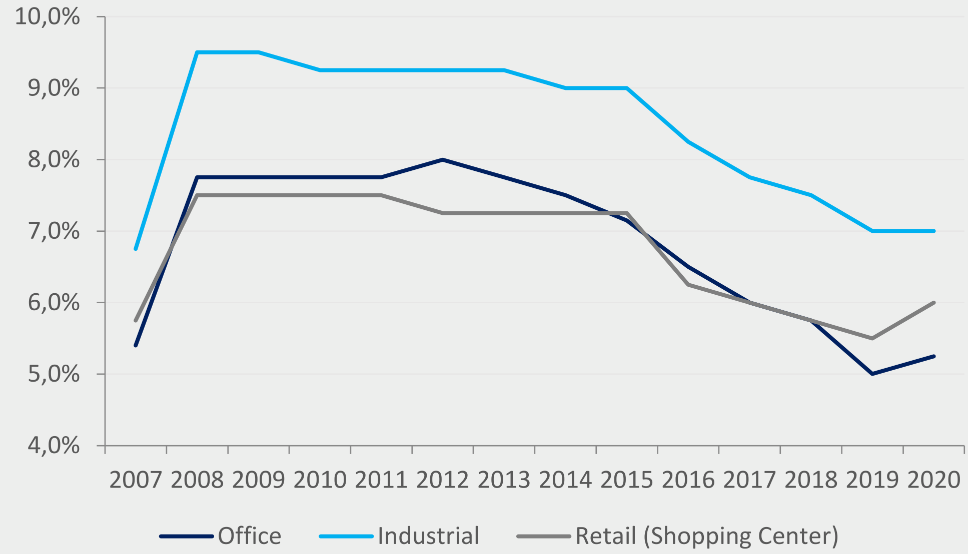



**TABLE 1:**
**Projects in the speculative Pipeline 2020-2022 (over 20,000 sq m)**

| Name of property | Asset type | Purchaser | Vendor | Size (sq m/rooms) |
|---|---|---|---|---|
| Rumbach Center | Office | Galcap | Al Habtoor | 7 500 |
| Laki irodaház | Office | M7 | Erste Fund | 7 000 |
| Alpha Park | Retail | Erste Fund | Private | 14 200 |
| Target Center | Retail | Erste Fund | Private | 23 500 |
| Spirál office | Office | MFB | GTC | 30 500 |
| Buda Square & Margit Palace (part of Adventum Buda Portfolio) | Office | Resolution Property | Aventum | 34 200 |
| Kaposvár Corso | Retail | Erste Fund | Private | 12 600 |
| IT Park (former Telekom Park) | Office | Hun Private | Telekom | 15 000 |
| Barcelo Hotel | Hotel | DWS Group & GmbH | Hun Private | 179 |
| Lánchíd Palota | Office | IIB | DÖB-68 Zrt. | 5 500 |
| M-square Hotel | Hotel | Fattal Hotels | Private | 71 |
| Váci Greens F | Office | MEFG ZRt. | Atenor | 25 000 |
| Eiffel Square | Office | Allianz | Equilor | 23 600 |
| Goodman Gyál | Industrial/logistics | GLP | Goodman | 44 700 |
| GTC Hun portfolio | Office, development plot | Lonestar | Optima | 125 000 |

Sources: Colliers International

# Outlook and forecast

Prime and core offices will likely enjoy a slight rebound in cap rates from their current contracted levels, slightly off-setting the negative changes in rents. Remote and hybrid working solutions will be the new norm for office tenants. This phenomenon will put more emphasis on asset selection. Buildings are now expected to provide wide flexibility and command high-quality technical solutions. Landlords will also need to adapt to the changing expectations of tenants and demonstrate flexibility when concluding leasing deals.

We also expect demand from investors towards value-add opportunities in superb locations as availability of these products is more abundant. Extensive refurbishment and repositioning will provide opportunity for investors in this segment.

In the logistics sector will finally see strong pipeline in 2021 and beyond, allowing for more robust trading levels. Logistics warehouses in Budapest have been the new safe haven for investors, and it is anticipated that prime yields may reach 6.50% in 2021.

The retail sector has been facing challenges in rent collection and tenant retention. The DIY, food and to some degree the retail warehouse market have been weathering out the pandemic better whilst e-commerce has been flying.

The strong depreciation of the Hungarian Forint combined with sluggish turnovers put several retailer's future at risk. We believe that e-commerce is going to severely and irreversibly damage the traditional retail market in Hungary.

We leave the year on a positive note, expecting activity to increase in 2021. Pricing in general will likely remain below 2018 and 2019 levels given the pressure on occupancy, rents and increased return expectations by investors.

*“We expect more deals to close in the industrial segment in 2021, as the pipeline is building up and the demand is expected to remain strong for this asset class.”*

## For more information

### Incestment Services

**Bence Vécsey**
Direktor
Head of Investment I Hungary
+36 1 336 4271
Bence.vecsey@colliers.com

### Research

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

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



123112 Москва
Пресненская набережная, д. 10
БЦ «Башня на Набережной», блок С, 52 этаж
Тел. +7 495 258 51 51
www.colliers.ru

Accelerating success.