Accelerating success.

2021 H1

Hungary Investment Market

Deal volume & trends

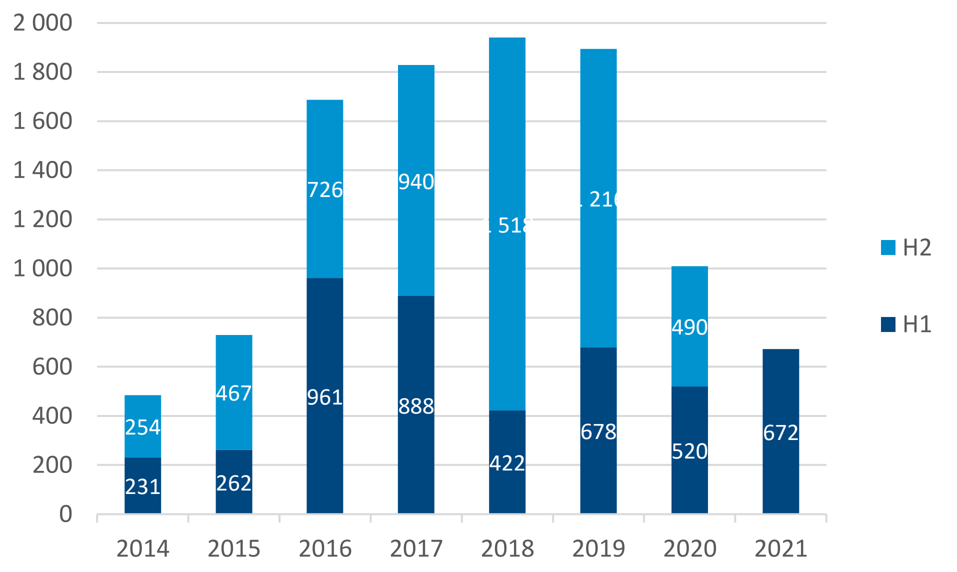
The pandemic created uncertainties also in the investment market throughout 2020, however, it seems that it remained temporary and investors appetite remained strong for commercial real estate. During H1 2021 the market was much more active compared with the same period last year, with number of significant deals closed.

The investment volume reached EUR 672 million, which represents almost 30% increase compared with H1 2020. The higher activity was driven transactions closed by domestic and international private individuals and Hungarian closed-ended funds.

New lending typically has become more expensive with less favorable conditions for buyers and banks become more selective with projects as the caution remains.

The margins have increased by 20-65 bps at the beginning of the pandemic. The clear focus for banks, similarly to investors, is the sustainability of the underlying income and risk associated with tenants and future re-letting prospects. 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 2014-2021 H1 (€ Millions)



Yields across most asset classes have been under scrutiny and in principle have gone up by 25-50 bps by the end of 2020 with the exception of the industrial/logistics sector, which experienced significant yield compression of 50-75 bps, already reaching 6.25%.

Hopefully, the economic environment of increasing interest rate will not decrease the appetite of investors for the property investment market. Looking further at 2021, Colliers anticipate an uptick in transaction volumes. The most sought-after asset class by investors is logistics & industrial alongside with offices. Surprisingly, investors remained active in the hotel segment as well even though the current crisis in this sector.

Increasing popularity is evidenced in unorthodox sectors such as NPLs or other alternative classes such as healthcare and data centers, 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 during the upcoming year due to forecasted space optimization by tenants. 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 64.5% 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 in 2020, 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 first half year among others, were the transaction of Evosoft and Ericsson office buildings by purchased GTC, the Váci Greens F by purchased Quartz Fund and the sale of Budapart Gate office building.

There were also examples of more opportunistic/value-add transactions by local and international investors including the sale of Terrapark A&B office buildings and Optima A office building in Budapest.

As evidenced, Hungarian capital has been increasingly finding its way into the internationally dominated Polish market, as well as other regional markets, presumably leaving more room for international equity to venture into Hungary.

In H1 2021, among international investors Belgium, Austria and France represented with 11% of the total investment volume on the buy side, while dominant were the hungarian investors with above 80% share.

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.

In H1 2021, 64.5% of the investment volume was transacted by local investors, with GTC –majority shares owned by Optima- alone securing 31% 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 H1 2021. Colliers registered five investment transactions exceeding the €50 million mark and one additional deals exceeding €30 million.

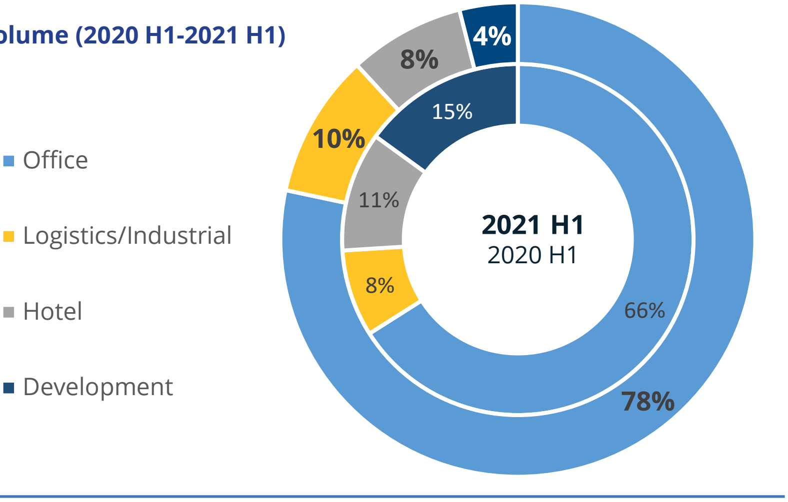
The investment volume reached €672 million in 2021 H1 which exceeds the volume of same period previous year with almost 30%. The office sector made up 79% of the total volume, which was followed by industrial transactions with a 10% share; followed by hotel with 8% and finally, by the development lands with a 4%.

There was a repricing of commercial real estate, especially on the buyer's side with the sentiment of shopping centers being affected the worst. In the case of hotels we did not come across any actual transactions that would underline a significant repricing sofar. However, the end of the loan moratorium could change the situation . 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.

The liquidity provided by banks stimulated the activity of both developers and investors in the pre-pandemic. Bank's are still willing to finance, but they became more cautious. This trend is expected to continue in the second half of 2021 until the market stability recover completely.

The market had been increasingly characterized by a strengthening of sales positions in recent years, especially for "prime" office and retail investment products. Typical "prime" yields at the end of 2021 H1 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 6.25%.

FIGURE 2:
Share of sector by investment volume (2020 H1-2021 H1)



Sources: : Colliers International

FIGURE 3:
Prime gross initial yields (2007-2021 H1)

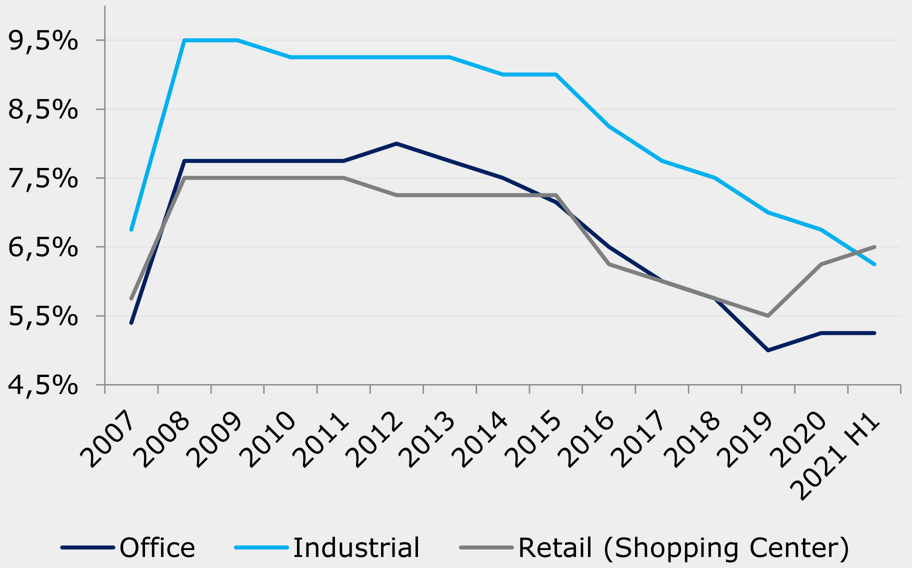


TABLE 1: Main investment transactions in 2021 H1

Name of property	Asset type	Purchaser	Vendor	Size (sq m/rooms)
Váci Greens F	Office	Quartz Fund	Atenor	25 000
Ericsson HQ	Office	GTC	Wing	24 000
Evosoft	Office	GTC	Wing	22 000
Budapart Gate	Office	n/a	Property Market	18 160
Váci Greens D	Office	GTC	Equilor	15 647
Office Campus	Office	CTP	Immofinanz	13 000
MKB HQ	Office	Private	Private	11 000
B&B hotel	Hotel	Primonial REIM	B&B Hotels	214
BC 140	Office	Resolution Property	DWS	16 000
Kogart Ház	Office	Private	Private	2 300
D8 Hotel	Hotel	BDPST	Dominarium	137
Hermina Towers	Office	Private	Indotek	16 509
IVY S&L	Logistics	CTP	IVY Corporation	26 400
Terrapark A&B	Office	M7	Bluehouse	30 000

Sources: Colliers International

Outlook and forecast

Prime offices will likely enjoy a slight rebound in cap rates from their current contracted levels, slightly off-setting the negative changes in vacancy and downward pressure on net effective 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.

The logistics sector will see strong pipeline (156 000 sq m around Budapest) also for the second half of 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 will reach a level in the range of 6.0-6.25% in H2 2021.

The retail sector, especially in shopping centers and in the high streets of Budapest 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. Retail parks perform better during the crisis because tenants benefit from the cost-effective retail concepts and people rather visited open-air shopping parks instead of closed malls.

The strong depreciation of the Hungarian Forint combined with sluggish turnovers put several retailer’s future at risk.

We leave the year on a positive note, expecting activity will increase further in the second half of 2021. Pricing especially by non-prime assets will likely remain below the 2019 levels given the pressure on occupancy, rents and increased return expectations by investors.

We expect to see more deals closing in the industrial segment in 2021, as the pipeline is building up and investors appetite remain exceptionally strong for this asset class.

For more information

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