



Industrial Market Overview-Budapest

March 2017

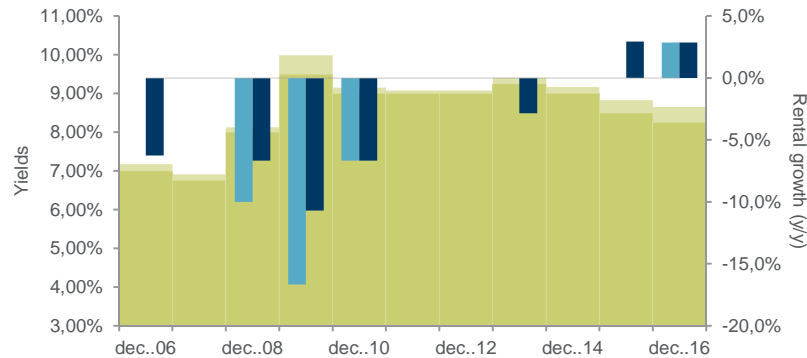
Recent Performance

Particularly strong year in 2016

The Hungarian industrial market witnessed high levels of activity in 2016. In spite of the moderate GDP growth, the industrial production retained its stable expansion and business sentiment remained strong.

Indeed, demand for industrial space intensified in the last quarter of 2016, pushing the vacancy rate further down to the lowest level ever registered in Budapest. Rents were unchanged, while yields hardened 25 bps in the three months to December.

■ Yield - Country Average ■ Yield - Prime ■ Rental Growth - Prime ■ Rental Growth - Country Average



MARKET OUTLOOK

Prime Rents
The very limited available warehouse space puts upward pressure on rents for the best units.

Prime Yields
Yields could sharpen further as investor demand solidifies.

Supply
Existing new supply is practically fully pre-leased for 2017. It is expected that development activity will be further accelerating.

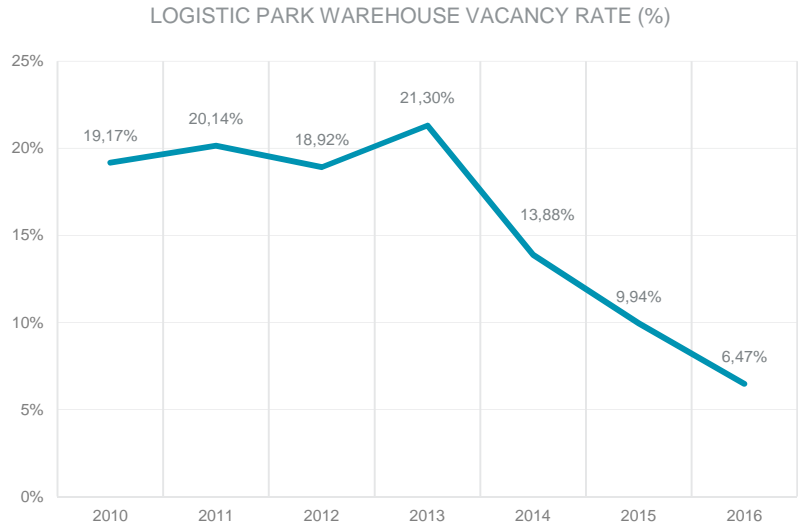
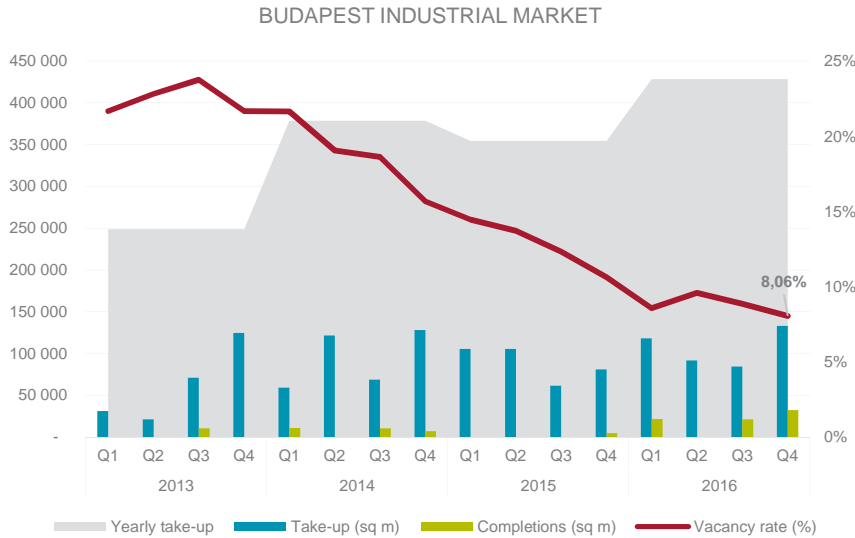
Demand
Pre-lease agreements and BTS activity is likely to accelerate in 2017 from tenants wishing to secure space for market entrance and expansions.

Budapest Industrial Occupational Market

Record high occupancy rate and high levels of activity in 2016

The Hungarian industrial market had a particularly strong year in 2016. Occupier demand remained robust with over 428,000 sq.m. of signed leases registered last year. This is the highest level ever recorded, representing a growth of 21% on 2015. The underlying lack of imminent relocation options has seen pre-leases and renewals feature prominently from the occupational activity.

Availability fell to the lowest level ever registered in Budapest. The overall vacancy rate fell to 8.1%, warehouse availability in logistics parks decreased to circa 6.5% indicating existing schemes are on the verge of reaching full occupancy. At year end, there were only 5 schemes that offered more than 5,000 sq.m. of vacant warehouse space. New developments are therefore imminent.



Budapest Industrial Occupational market

Development activity is accelerating

Five schemes extending to 76,000 sq.m were delivered in year 2016. All were mostly pre-leased prior to completion, supply therefore, cannot accommodate the requirements of new entrants and expansions. The lack of available warehouse space around Budapest and the current strong demand trends are strengthening landlords' negotiating positions. This resulted in moderate growth of headline rents and further reductions in incentives.

Six schemes extending to 72,000 sq.m. of space are currently under construction, while more than 90% of this pipeline is already pre-let. All will be handed over until the end of Q3 2017. We expect however, that speculative projects will break ground in the upcoming period.

PRIME INDUSTRIAL RENTS – DECEMBER 2016

Logistics locations	€	€	US\$	Growth %	
	sq m/mth	Sq m/yr	sq ft/yr	1yr	5yr cagr
Budapest	3.60	43.2	4.51	2.9	0.6
Debrecen	3.50	42.0	4.34	0.0	0.0
Miskolc	3.50	42.0	4.34	0.0	0.0
Győr	3.50	42.0	4.34	0.0	0.0
Székesfehérvár	3.50	42.0	4.34	0.0	0.0

KEY LEASING TRANSACTIONS IN 2016

Scheme Name	Tenant Name	Size	Type of deal
Prologis Park Budapest - Budaörs	Geodis	27 823	Renewal
Inpark Páty	Kühne + Nagel	23 400	Pre-lease
Prologis Park Budapest – Harbor Park	Fiege	20 900	Renewal
Prologis Park Budapest - Sziget	Confidential	14 000	Pre-lease
Airport City	Confidential	7 400	BTS/Pre-lease

PIPELINE PROJECTS

COMPLETION	CITY	NAME	SIZE (SQ M)	PRE-LET
Q2 2017	Budapest	Budapest Dock Szabadkikötő II	7 200	100%
Q2 2017	Budapest	Budapest Dock Szabadkikötő III	12 000	75%
Q2 2017	Budapest	BILK L2	8 200	80%
Q3 2017	Páty	Inpark Páty	23 400	100%
Q3 2017	Szigetszentmiklós	Prologis Park Budapest – Sziget DC7b	7 200	100%
Q3 2017	Szigetszentmiklós	Prologis Park Budapest – Sziget DC8	14 000	100%

Industrial Investment Market

Record high industrial investment volume in 2016

2016 produced a record year in terms of transaction volume with € 258 Million invested into the Hungarian industrial real estate market. This represents 297% growth on 2015 and 157% on the previous record year of 2007.

Yields hardened 25 bps over 2016, standing at 8.00% for prime assets in the capital city. Further hardening is expected due to increased competition for the best assets.

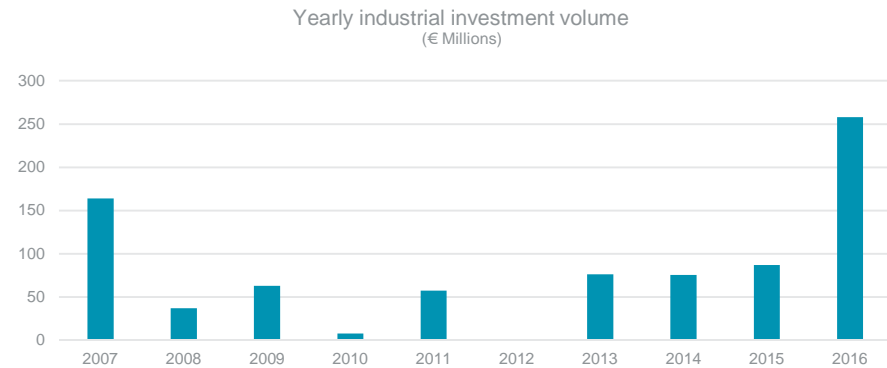
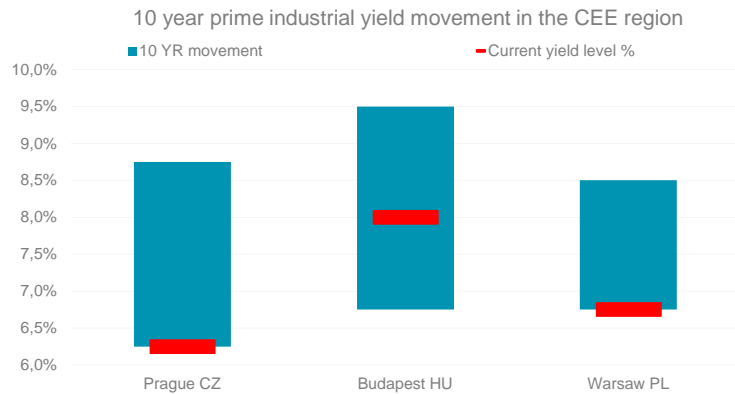
Domestic and European investors dominate the activity and are clearly focused on schemes in and around Budapest. However, with limited product coming to the market, secondary locations in northern Transdanubia are also on the radar.

PRIME INDUSTRIAL YIELDS – DECEMBER 2016

LOGISTICS locations (figures are gross, %)	CURRENT	LAST		10 YEAR	
	QUARTER	QUARTER	YEAR	HIGH	LOW
Budapest	8.00	8.25	8.50	9.50	6.75
Debrecen	9.75	9.75	9.75	12.00	7.50
Miskolc	9.75	9.75	9.75	12.00	7.50
Győr	9.25	9.25	9.25	10.00	7.00
Székesfehérvár	9.50	9.50	9.50	10.00	7.00

KEY INDUSTRIAL INVESTMENT TRANSACTIONS 2016

SUBMARKET	SCHEME	INVESTOR	VENDOR
Budapest	SLI portfolio	Blackstone-Logicor	Standard Life
Various	Westlog DC, Delphi Hungary WH	CTP Group	Industrial Securities
Budapest	Immofinanz logistics portfolio	Blackstone-Logicor	Immofinanz
Various	Standard Life portfolio	Blackstone-Logicor	Standard Life
Budapest	M5 Business Park	OTP RE Fund	Autóker
Budapest	Ullo 17	CTP Group	Raiffeisen RE



Appendix



Evolution of the Hungarian Industrial Market

Excellent logistics and manufacturing location at the centre of 4 main transport corridors

Being located at **the centre of the Helsinki Corridors and along the main Ten-T Network routes**, Hungary has strong credentials for logistics and industrial business sites. The extensive road and railway network has enabled industrial projects to be developed in the country.

Most of Hungary's **modern logistics space is centred around Budapest**, in particular along the M0 ring road whereas production facilities are spread out throughout the country. Speculative logistics have historically been developed alongside the M1 motorway. Regional cities have remained underdeveloped in that regard.

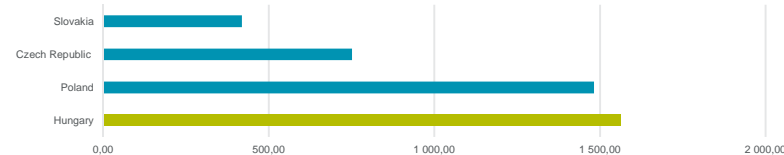
Manufacturing is often heavily incentivized by both the government and the EU to locate in certain locations, although this often stimulates related demand from related businesses. The majority of the non-owner occupied industrial logistics market is represented by the big box logistics units developed in accordance with international standards.

Industrial hotspots in terms of production based businesses are Győr and Kecskemét - with Audi having recently expanded its production facility at the former, and Daimler having opened its factory at the latter in 2011. The automotive industry is further represented in Esztergom (Suzuki) and Szentgotthárd (General Motors / Opel). Naturally, these locations are **a magnet for car industry related businesses**, boosting the economic performance of subject areas.

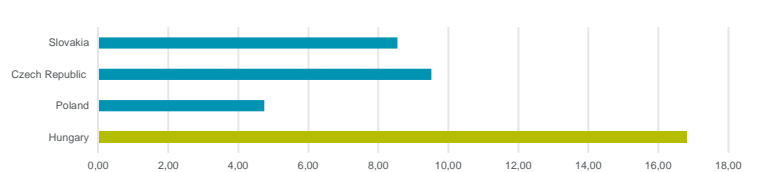
Hungary features the longest highway network in the CEE region despite the significant size difference compared to the other CEE countries.

The density of highway network ranks Hungary the first place.

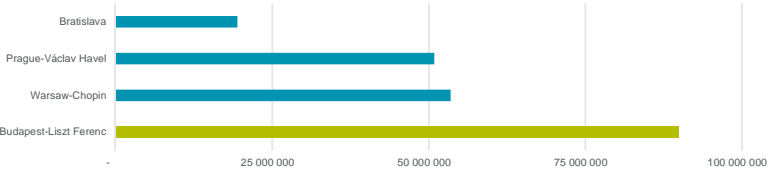
Length of highways in CEE countries, 2013 (km)



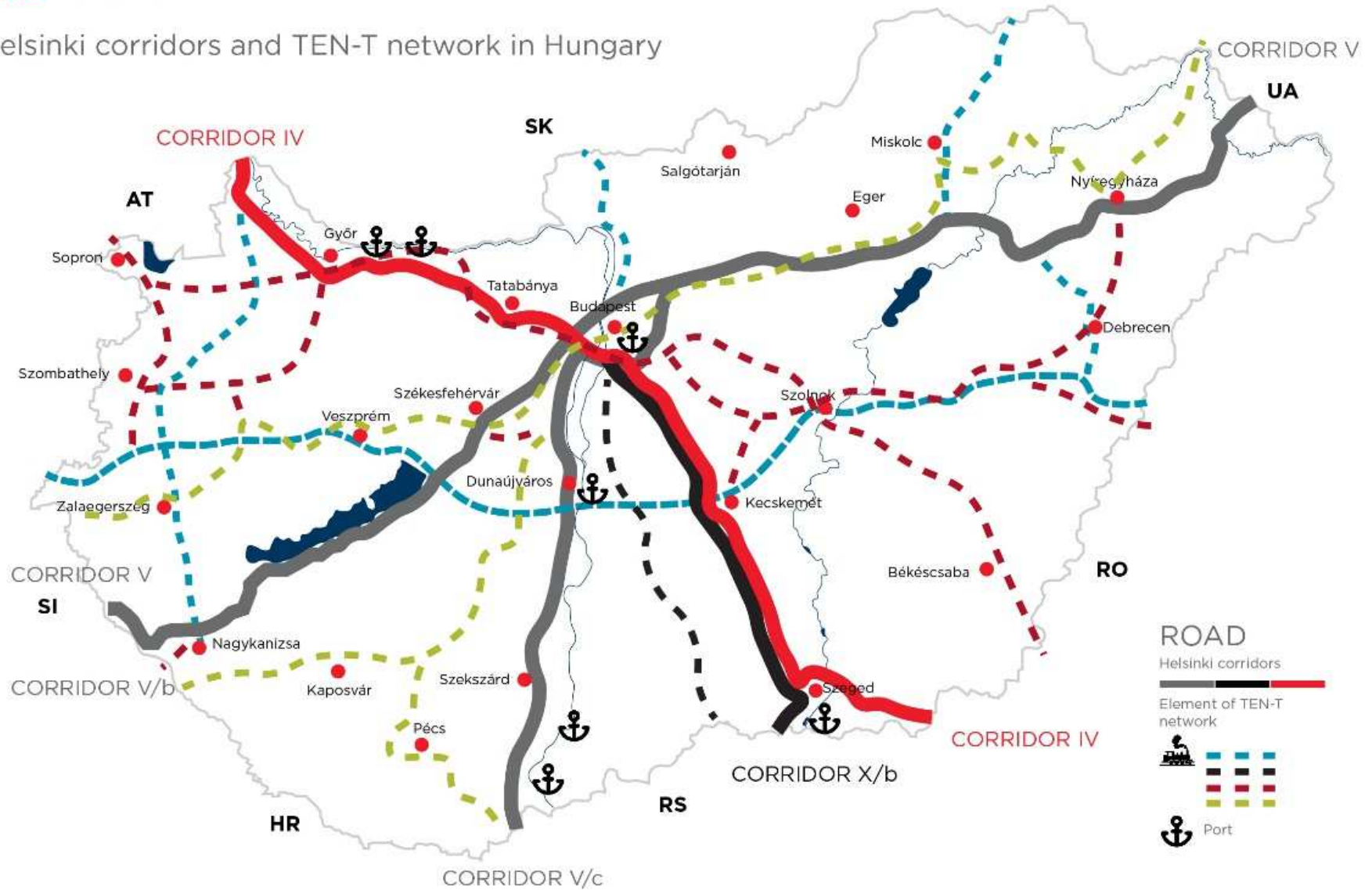
Density of highways in CEE countries (km/1000 sq km)



Cargo traffic in CEE airports, 2014 (tons)



Helsinki corridors and TEN-T network in Hungary



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