

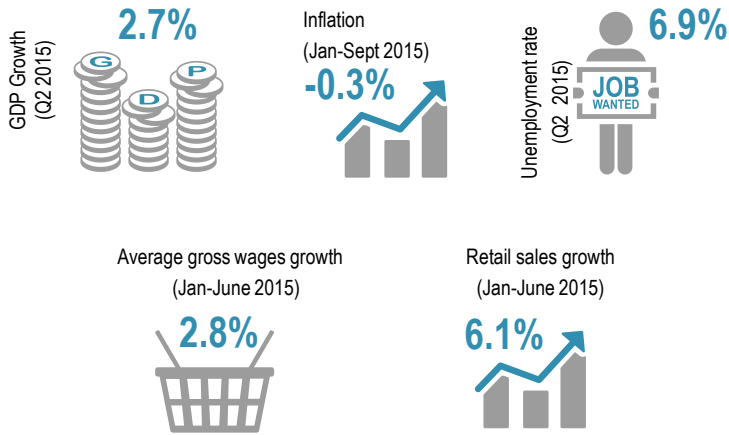
# Budapest City Report



Q3 2015

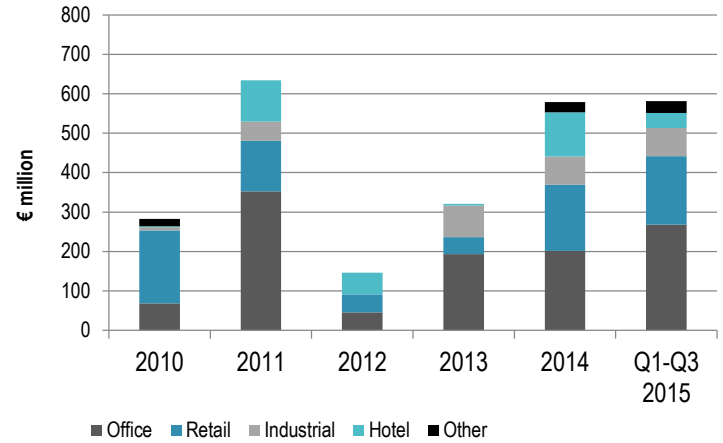


## Economy

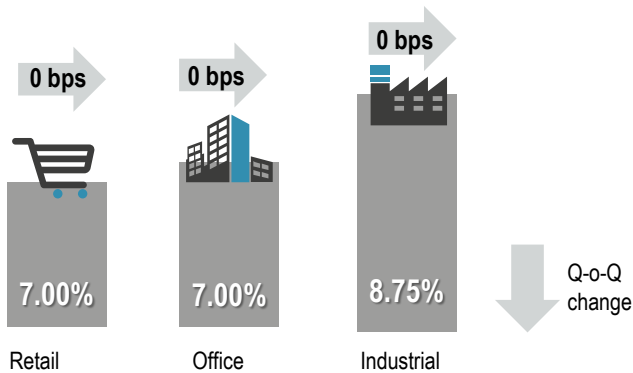


Source: Hungarian Central Statistic Office (KSH)

## Investment Volumes



## Prime Yields



## Quarterly summary

- Portfolio transactions remained the key driver of Hungarian investment activity in Q3 2015.
- The quarterly transactional volume reached some €290 million, nearly twice as much as in Q2. Therefore, the year-to-date total transactional volume amounts to roughly €575 million, already reaching the 2014 annual volume.
- The largest transaction of the quarter was the sale of AEW's Hungarian portfolio including Mom Park Shopping Centre and Offices, West End Business Center and EMKE Offices. This transaction was the largest ticket deal since 2007.
- We expect the 2015 annual investment volume to reach €700-750 million in total, with increasing interest from both international investors and local funds.

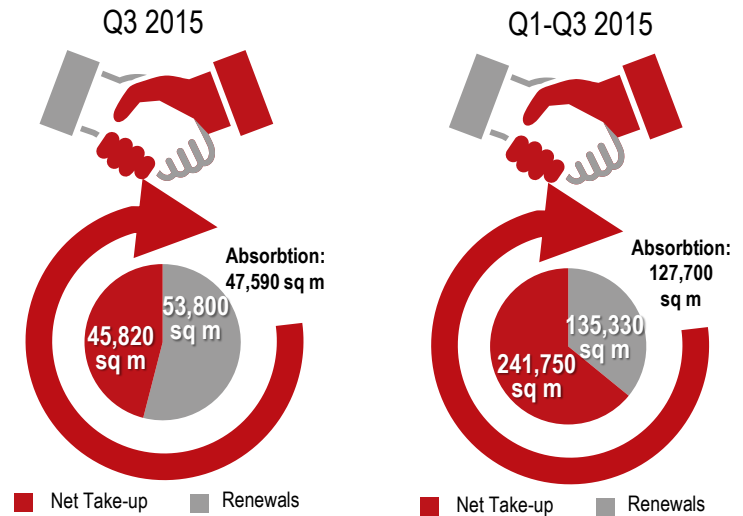
## Key Transactions

	Quarter	Asset class	Property	Size (sq m)	Seller	Buyer
	Q3	Mixed	AEW portfolio	84,700	AEW	Morgan Stanley, WING, CC Real
	Q3	Office	EBRD „E” portfolio	54,500	EBRD	CA-Immo
	Q3	Office	Infopark E	17,000	Bluehouse	Diófa REIM
	Q2	Mixed	AVIVA portfolio	42,000	Aviva	Lone Star
	Q2	Mixed	Orco portfolio	43,700	Orco	Horizon Development, State
	Q1	Industrial	M1 Business Park	69,100	CA Immo	ProLogis
	Q1	Office	Vision Towers South	9,075	Futureal	ERSTE RE Fund

## Quarterly summary

- Two new office buildings were delivered to Budapest in Q3 2015: the second phase of Bosch's own headquarters (20,000 sq m) and the 7,800 sq m refurbishment of Erzsébet Office Building A.
- As a result of the new completions, the size of the modern office stock in Budapest increased to 3.278 million sq m.
- The improvement of the vacancy rate continued for the seventh consecutive quarter, declining by 72 bps q-o-q and 340 bps y-o-y. The rate dropped to 13.5%.
- After the record strong occupational activity of Q2, demand fell back, nevertheless remained in line with the average quarterly activity. Gross take-up amounted to 99,620 sq m whereas net take-up totalled 45,820 sq m.
- The year-to-date gross take-up totalled 377,080 sq m while net take-up amounted to 241,750 sq m.
- Quarterly net absorption equalled 47,590 sq m.
- Prime rent remained stable at €20 sq m / month.

## Demand



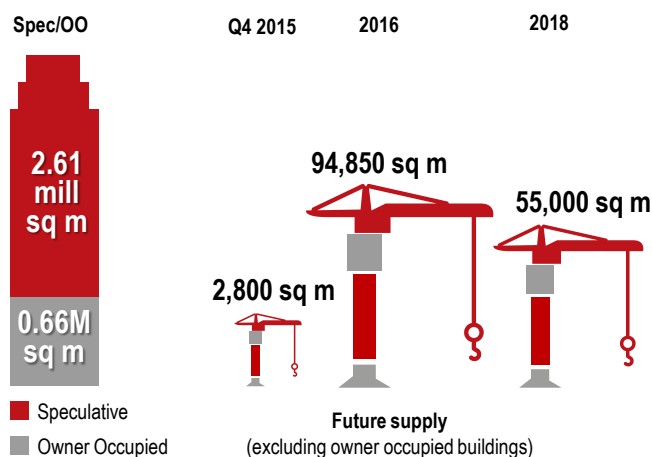
## Selected leasing transactions Q1-Q3 2015

Building	Tenant	Size (m <sup>2</sup> )	Type of transactions	Quarter
Magyar Telekom HQ	Magyar Telekom	55,000	Pre-lease	Q2
Corvin IV	Nokia Networks	25,000	Pre-lease	Q2
Millennium Towers	Morgan Stanley	16,900	Renewal+ Expansion	Q3
Graphisoft Park	SAP	10,000	Renewal	Q2
Népliget Center	Ericsson	6,370	Renewal	Q2
Central Udvar	UNICEF	6,200	New	Q2

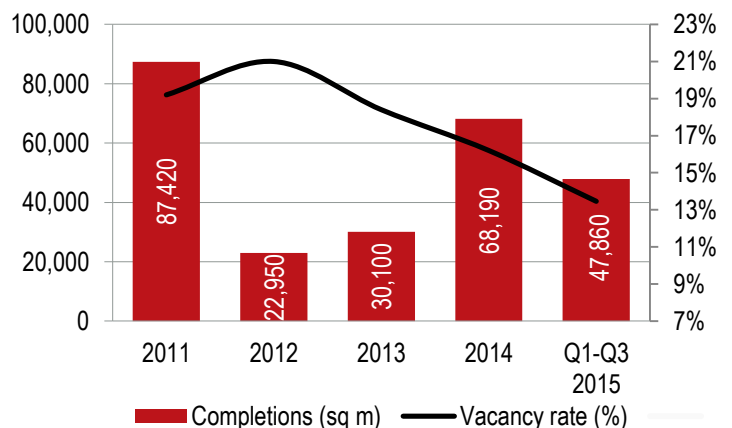
## Forecast

- We expect the annual completion volume to reach 50,660 sq m by year-end (including the owner occupied Bosch HQ).
- New supply in 2016 is forecast to reach the highest volume since 2010 with nearly 94,850 sq m of modern office space, whereas an additional 55,000 sq m is to be delivered for Magyar Telekom in 2018.
- We expect annual gross take-up in 2015 to reach a similar volume to 2014 (465,000 sq m), however 2015's annual net take-up might exceed the 2014 volume (251,610 sq m).
- The decline of the vacancy rate is forecast to continue and reach the 13% mark.
- Due to the noticeable shortage of quality office supply, the reduction of tenant incentives has started. While the amount of fit-out contributions vary considerably, rent free periods have shortened and results in the increase of effective rents. Furthermore, asking rents have also started to increase in some assets.

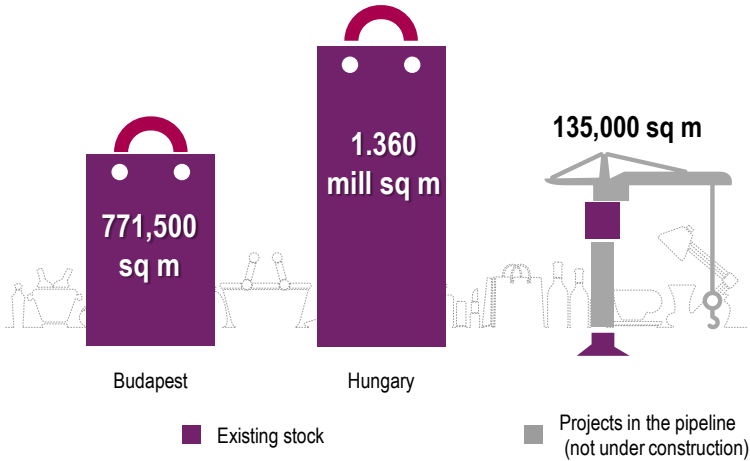
## Distribution of existing stock and future supply



## Vacancy rate and completions



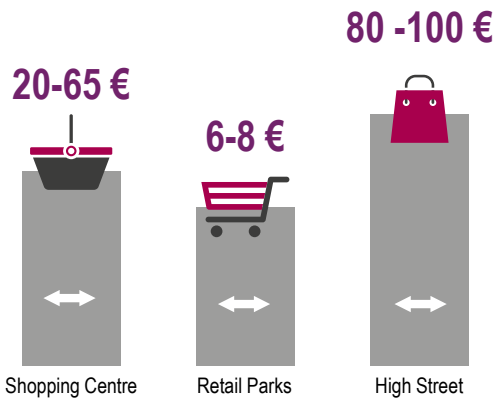
## Shopping centre supply / stock (sq m)



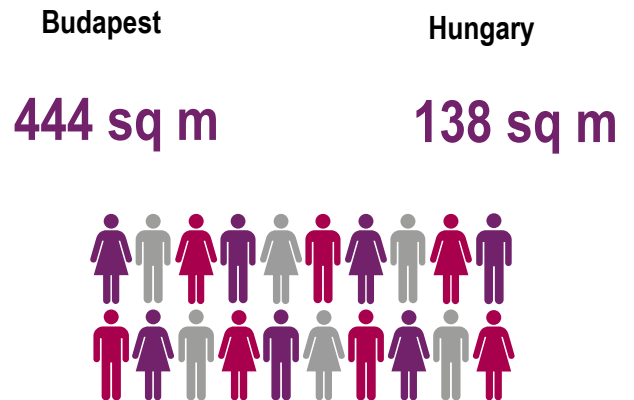
## Quarterly summary

- The retail sales volume continued to increase, reaching 6.1% between January and June, 2015. It seems that the mandatory Sunday closure of shops has not had a negative impact on the growth rate, however, the implementation of electronic point of sale units certainly whitened the market and helped to keep the volumes high.
- The total shopping centre stock in Budapest stands at 771,500 sq m in 25 assets.
- Although the luxury department store, Il Bacio de Stile has closed on Andr ssy Avenue, we are aware of several luxury and premium brands which will open their flagship store by the end of the year on Andr ssy. New openings include Michael Kors (selling clothing and footwear in addition to bags and accessories), Polo Ralph Lauren and Cos. The new openings reflect the improved confidence in the retail sector.

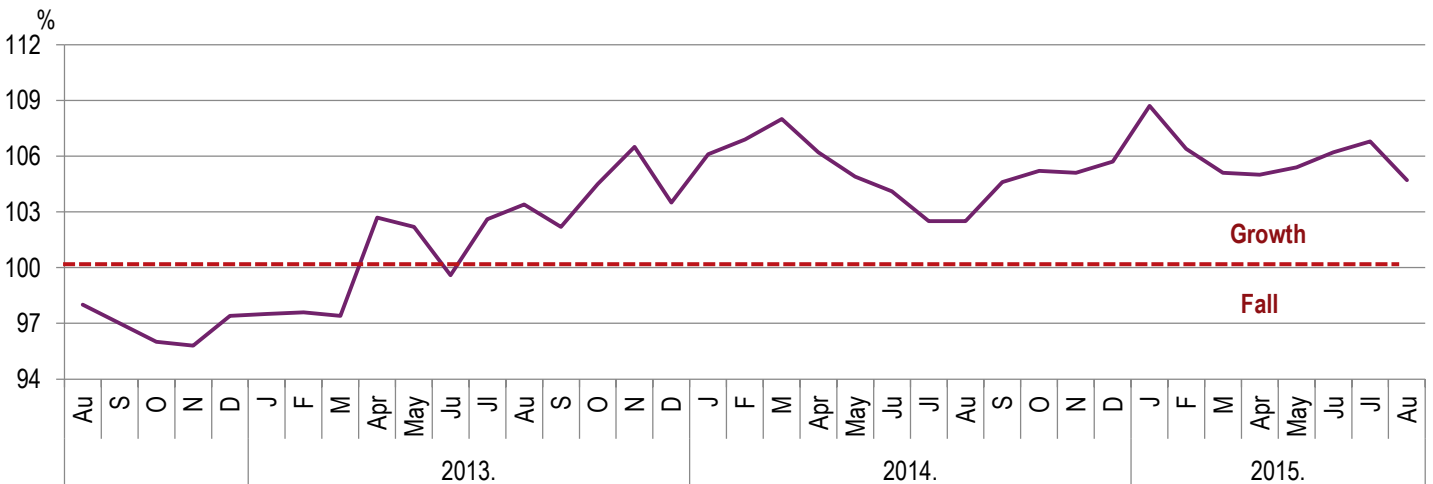
## Typical rents (€/sq m/month)



## Shopping centre density/ 1,000 inhabitants



## Retail sales growth (% change, year-on-year)

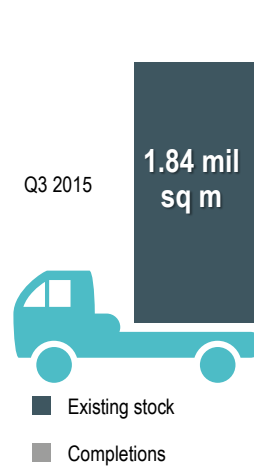


Source: Hungarian Central Statistic Office (KSH)

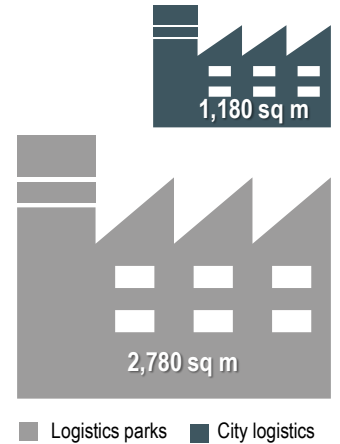
## Quarterly summary

- There were no new warehouse completions in Budapest in Q3 2015, however one building was excluded from the speculative stock after being purchased by an end-user. Therefore the size of the modern industrial stock decreased to 1.84 million sq m.
- The improvement of the vacancy rate continued for the eighth consecutive quarter, declining by 139 bps quarter on quarter and 528 bps year on year. The rate dropped to 12.3%.
- The total quarterly leasing activity slowed down reaching 61,840 sq m, out of which, net take-up totalled 37,850 sq m. This indicates a 42% and 50% drop quarter on quarter respectively.
- The largest transaction of the quarter was a renewal on 12,290 sq m in Prologis Harbor Park followed by a new lease by an e-retailer on 7,660 sq m in Üllő.
- Since vacant logistics space is continually being absorbed, landlord negotiating positions became stronger, hence they are able to offer less flexible rental terms compared to 6 months ago.

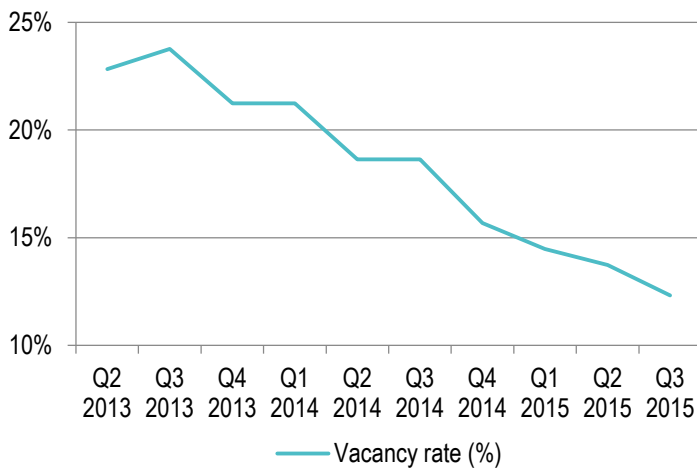
## Stock / Supply



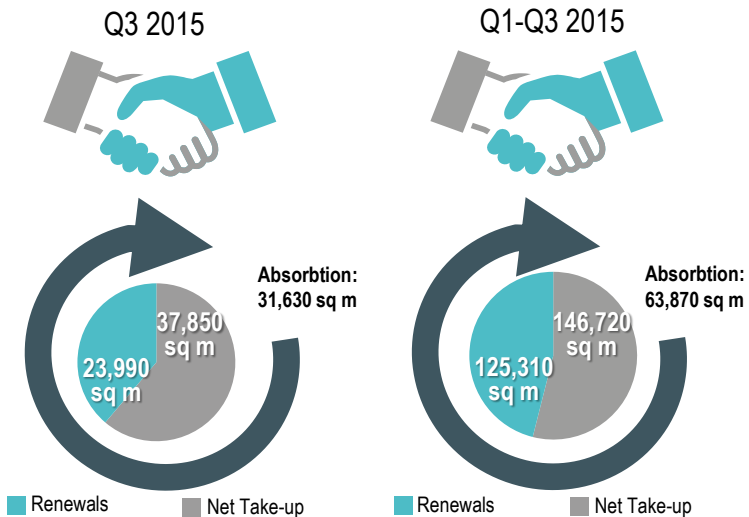
## Average transaction size



## Vacancy rate



## Demand

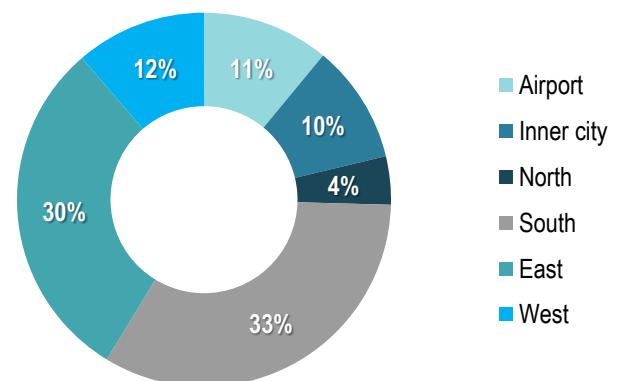


## Key Transactions

Property	Size (sq m)	Type of transaction	Quarter
Alsónémedi, new scheme	22,000	BTS	Q2
Prologis Park Budapest-M1	15,880	New	Q2
Prologis Park Budapest-Gyál	14,420	Renewal	Q1
Prologis Harbor Park	12,290	Renewal	Q3



## Distribution of demand by submarkets Q1-Q3 2015





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**Rita Tuza**

Head of Research  
+36 1 489 0202  
rita.tuza@eu.jll.com

**Ferenc Furulyás**

Managing Director  
+36 1 489 0202  
ferenc.furulyas@eu.jll.com

**JLL Office**

Szabadság tér 14.  
1054  
Budapest  
Hungary  
Phone number +36 1 489 0202