

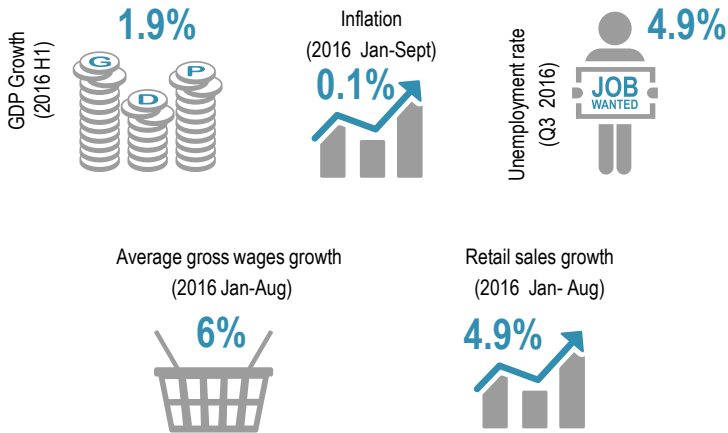
Budapest City Report

Q3 2016



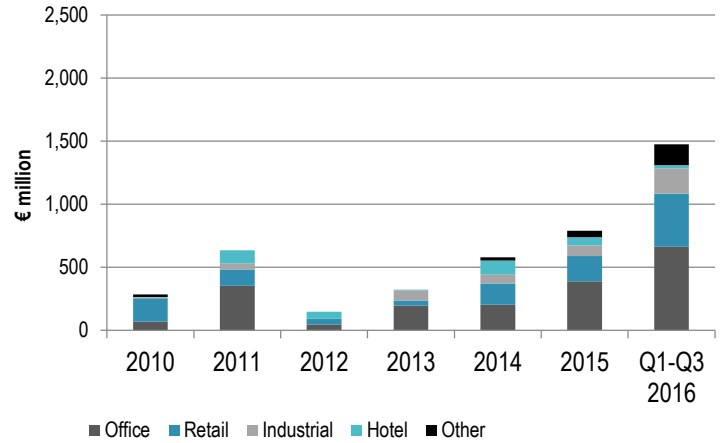
City Reports

Economy

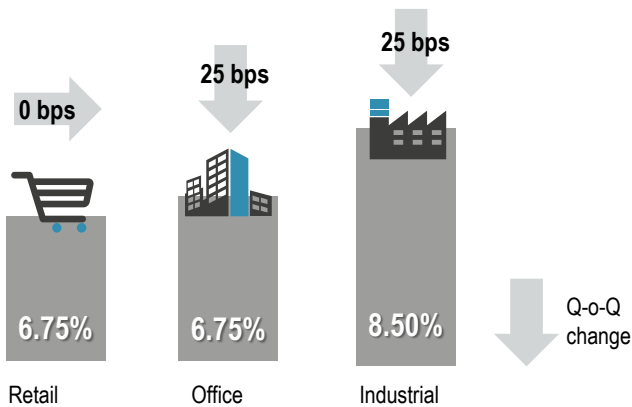


Source: Hungarian Central Statistics Office (KSH)

Investment Volumes



Prime Yields



Quarterly summary

- The Q3 total transactional volume reached some €590 million, pushing the overall investment volume between January and September 2016 to roughly €1.47 billion, almost twice as much as the 2015 annual volume.
- Quarterly investment activity was driven by office transactions (representing 65% of the total transactional volume) with retail assets generating 17%. The remaining share was generated by a mix of hotel, industrial and other types of assets for development purposes.
- The third quarter saw the closing of the largest office transaction in the history of the Hungarian investment market: the sale of Millennium Towers by Heitman and Trigranit.
- Prime yields compressed by 25 bps for offices and logistics assets, falling to 6.75% and 8.50% respectively. The prime shopping centre yield remained unchanged at 6.75%

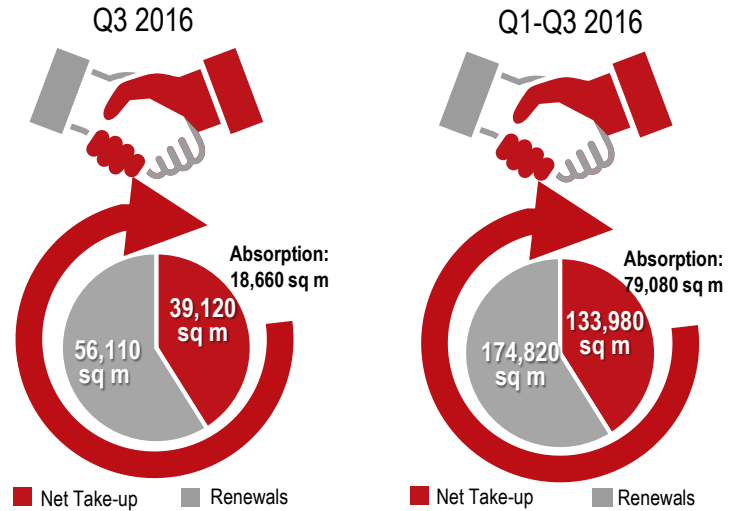
Key Transactions

	Quarter	Asset class	Property	Size (sq m)	Seller	Buyer
	Q3	Office	Millennium Towers	67,000	Heitman/TriGranit	CA Immo
	Q3	Office	Park Atrium	28,000	GLL	Corpus Sireo
	Q3	Office	Dorottya Udvar	19,300	AXA REIM	Al Habtoor
	Q3	Office	Margit Palace + Terrapark A and B	43,800	JP Morgan	Bluehouse

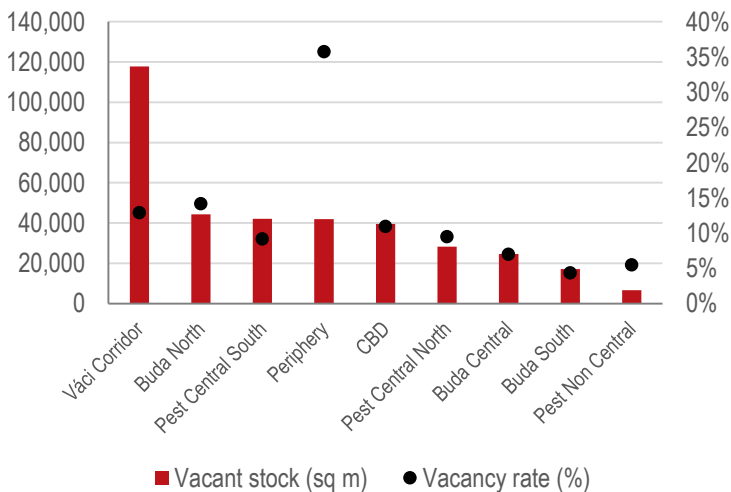
Quarterly summary

- In Q3 2016, three new buildings were delivered to the Budapest office market, totalling 39,570 sq m. V17 - E-on's 12,350 sq m headquarters was developed by WING; Nordic Light was completed by Skanska with a GLA of 24,900 sq m and Buda Loft was delivered with 2,320 sq m. Due to the new completions, the size of the modern office stock in Budapest increased to 3.334 million sq m.
- The vacancy rate increased by 50 bps quarter on quarter to 10.9%.
- Occupational markets remained healthy. Quarterly gross take-up amounted to 95,230 sq m whereas net take-up totalled 56,110 sq m. Renewals were the main drivers of the leasing market, representing 41% of the total leasing activity.
- Quarterly net absorption totalled 18,660 sq m.
- Prime office rental levels remained unchanged standing at €22 sq m / month.

Demand



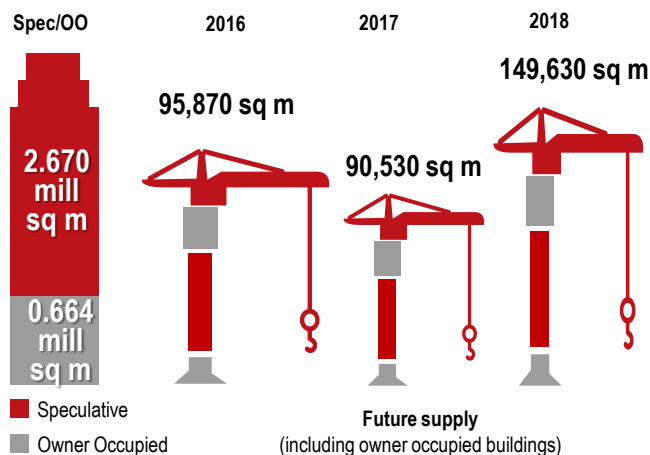
Vacant stock and vacancy rate by submarket



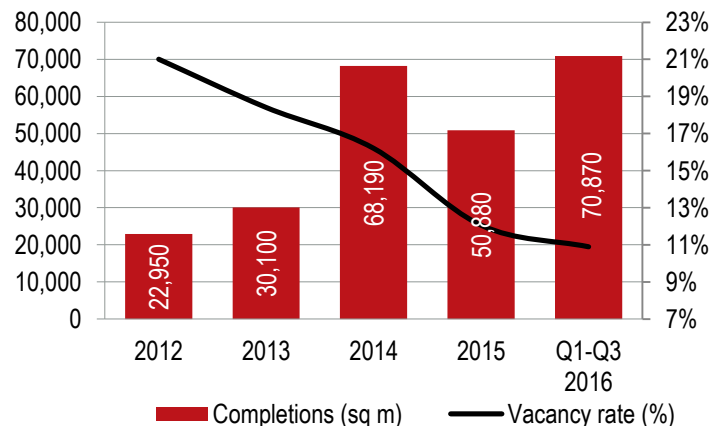
Q1-Q3 summary

- Between January and September, the Budapest office market expanded by 70,870 sq m. During this period, five new buildings were delivered to the market: the third phase of Váci Greens (25,600 sq m), Váci 1 (5,700 sq m of office space), V17 (12,350 sq m), Nordic Light (24,900 sq m) and Buda Loft (2,320 sq m).
- Gross take-up amounted to 308,810 sq m, whereas net take-up reached 174,820 sq m. Both indicators were below the volumes of the corresponding period of 2015, when two mega-sized pre-lease agreements were registered, driving demand volumes to a record high.
- Net absorption totalled 79,080 sq m, which is 4% stronger than the 10-year average of the Q1-Q3 absorption volume.
- The volume of new supply is increasing dynamically. The projects secure pre-leases quickly, hence they are delivered with a significant occupancy rate. Speculative constructions have also appeared.

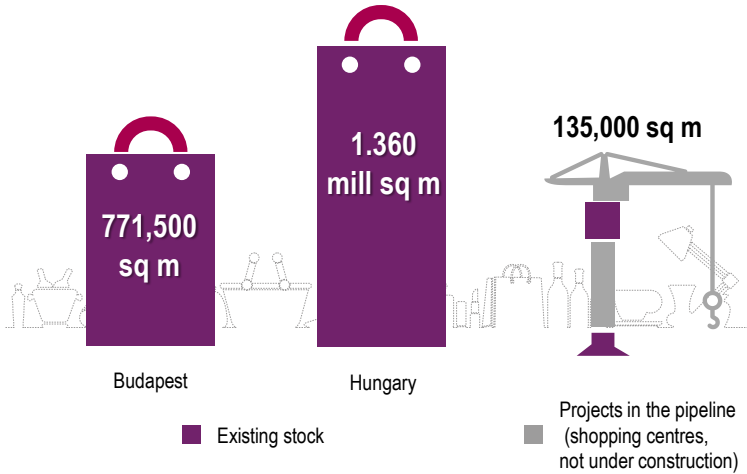
Distribution of existing stock and future supply



Vacancy rate and completions



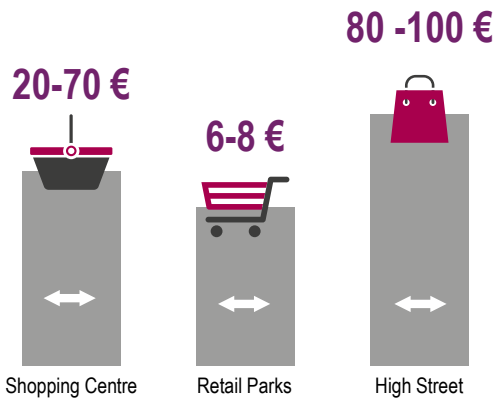
Shopping centre supply / stock (sq m)



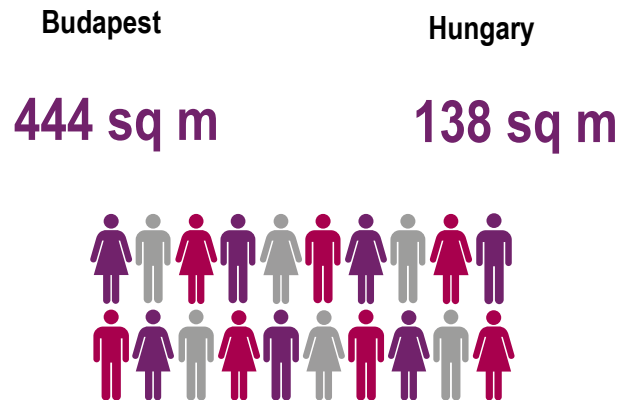
Quarterly summary

- Retail sales growth reached +4.9% between January and August 2016.
- The total shopping centre stock in Budapest stands at 771,500 sq m in 25 assets. The size of the stock remains unchanged since 2013, when the last shopping centre expansion was delivered.
- The fluctuation of retailers along the prime high streets (Andrássy Avenue, Váci Street and Fashion Street) is still noticeable. New openings along Váci Street include Ecco, Yves Rocher and Players Room. CCC Shoes is due to open its largest Hungarian store at H&M's former unit in Vörösmarty Nr.1, however the opening date of the new store is yet to be confirmed.
- The only shopping centre prospect in the pipeline is Etele Shopping Center with 43,000 sq m of GLA, due to be developed by Futureal and managed by ECE. The construction of the project is due to commence by the end of 2016, with delivery of the asset expected in the first half of 2018. The construction of the third Hungarian IKEA store on Soroksári Street is on-going. Construction of the 34,000 sq m new store is due for completion by mid-2017.

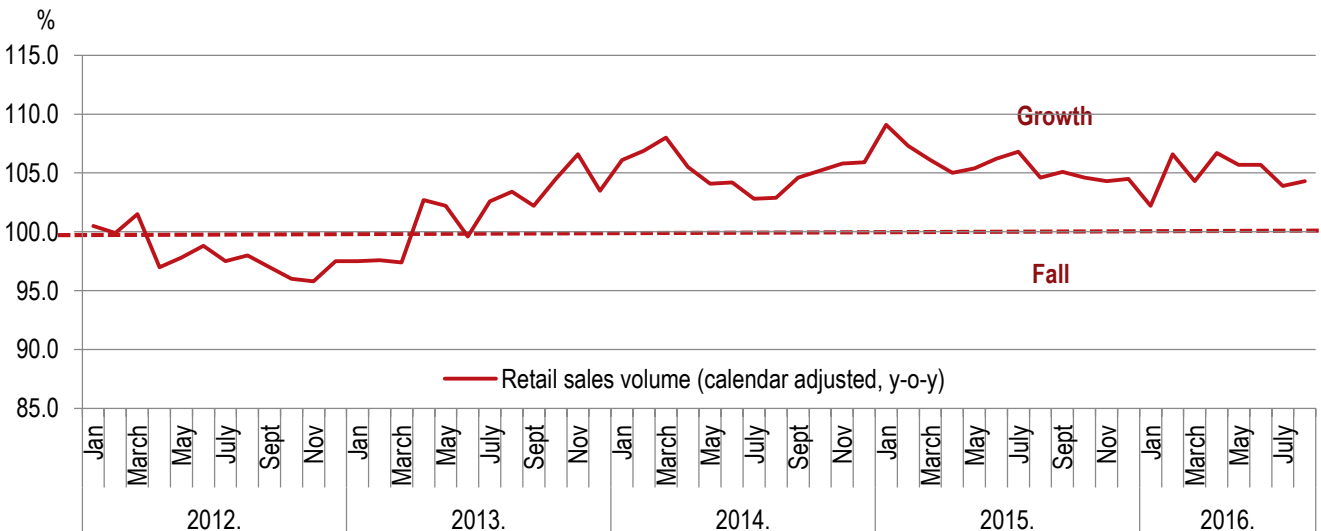
Typical rents (€/ sq m/ month)



Shopping centre density/ 1,000 inhabitants



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

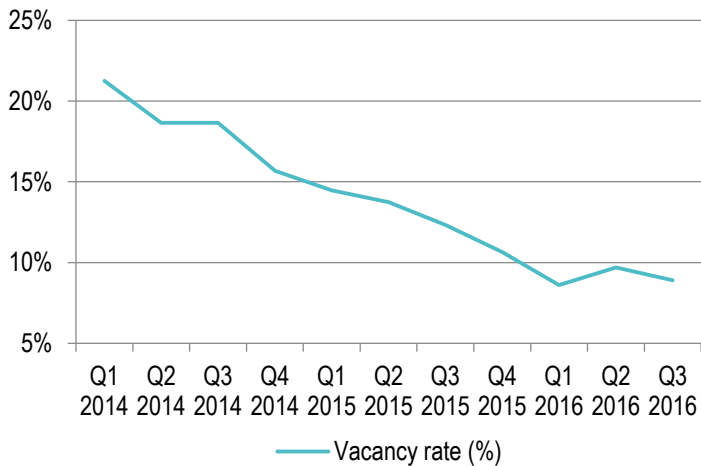


Source: Hungarian Central Statistic Office (KSH)

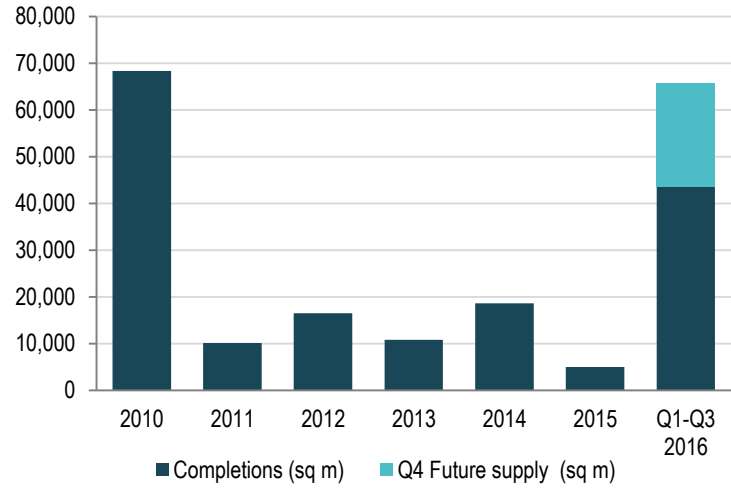
Quarterly summary

- In Q3 2016 one development was completed in the Budapest industrial market: the expansion of Prologis Park Budapest Sziget comprising 21,510 sq m warehouse space. As a result of the new delivery the total size of the stock increased to 1.91 million sq m.
- The vacancy rate declined 80 bps quarter on quarter reaching 8.9% at the end of Q3 2016.
- The quarterly total leasing activity amounted to 84,570 sq m, which was 8% below the volume recorded in the previous quarter. On the other hand, net take-up totaled 61,070 sq m, reflecting a significant, 88% increase on Q2 2016.
- Gross take up amounted to 294,900 sq m between January and September which indicates a 8% increase compared to the volume of the same period of 2015. During this period net-take up equaled 124,690 sq m, reflecting a 15% decrease on the corresponding period of 2015.
- Development activity has finally started to pick up. The annual volume of completions is expected to reach 65,710 sq m, which will be the highest annual completion volume since 2010.

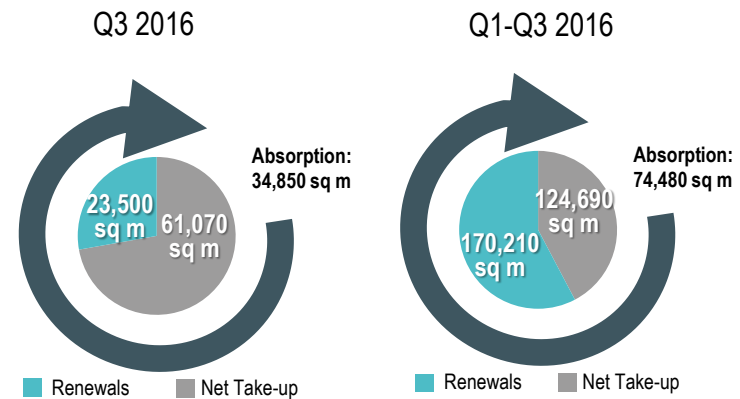
Vacancy rate



Completions and future supply



Distribution of demand by type of take-up

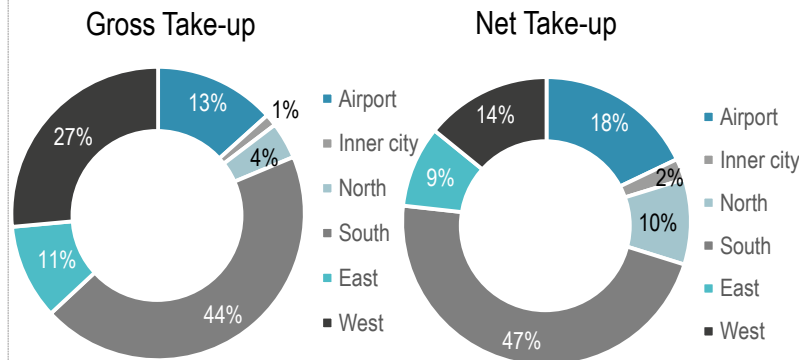


Key Transactions in Q3 2016

Property	Size (sq m)	Type of transaction
K-Sped 17	14,870	New
Prologis Park Budapest-Gyál	6,850	Expansion
Prologis Park Budapest Harbor Park	6,080	Renewal
BILK	5,960	Pre-lease



Distribution of demand by submarkets Q1-Q3 2016





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