

Budapest City Report

Q2 2016

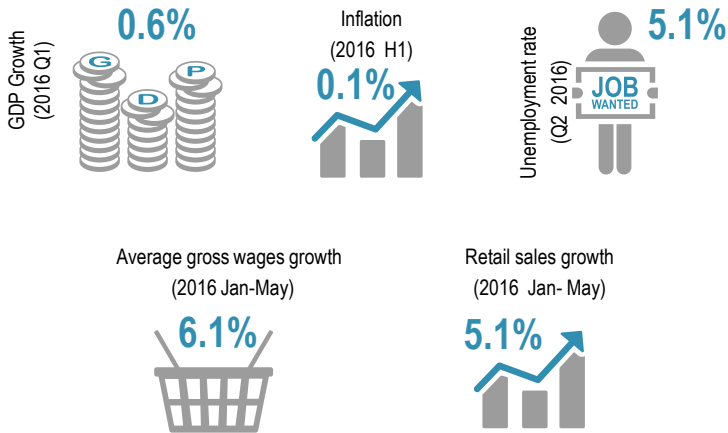


Years of



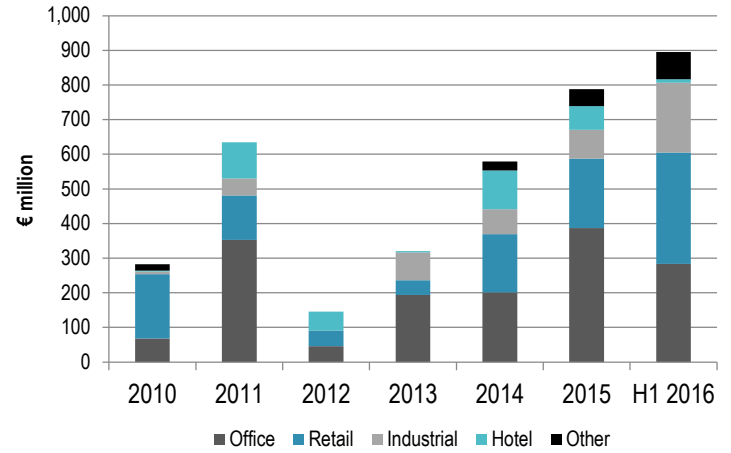
*City
Reports*

Economy

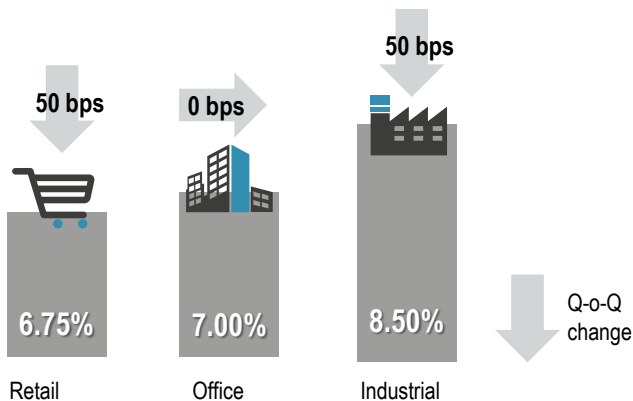


Source: Hungarian Central Statistics Office (KSH)

Investment Volumes



Prime Yields



Quarterly summary

- The quarterly total transactional volume reached some €890 million, roughly four times higher than the volume of the corresponding period of 2015.
- Retail transactions represented 49% of the deals, office assets had a share of 24% while the remaining part was made up of a mix of logistics, hotel and other types of assets.
- Prime yields stand at 7.00% for offices, while after a 50 bps. reduction they have fallen to 6.75% for shopping centres and 8.50% for logistics. Further compression is expected over the next 12 months.
- We expect further portfolios as well as landmark buildings to be sold in H2 which could push the 2016 volumes towards the €2.0 billion level.

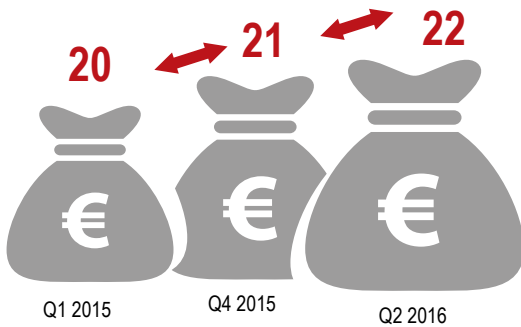
Key Transactions

Quarter	Asset class	Property	Size (sq m)	Seller	Buyer
Q2	Office	Eiffel Square	23,000	Europa Capital	KGAL Investment Management
Q2	Retail	Europark	25,000	Unibal-Rodamco	Diófa REIM
Q2	Office	Buda Palota, Millenáris Classic, Millenáris Avantgard	19,300	WING	National Bank of Hungary
Q2	Retail	Zala Park	13,500	Resideal Zrt.	Diófa REIM

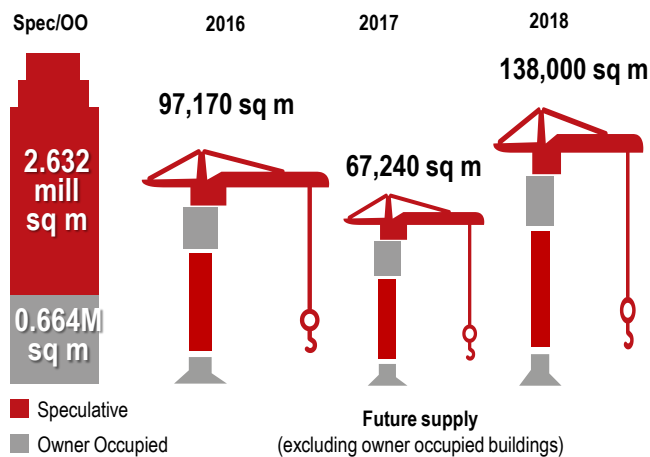
Quarterly summary

- In Q2 2016, the Budapest office market was expanded by the 5,700 sq m office component of Váci 1, located in the CBD submarket. The asset was developed by Horizon Group and the office component was 50% occupied upon completion.
- Following the new delivery, the total modern office stock in Budapest increased to 3.297 million sq m.
- Vacancy declined by 100 bps q-o-q and 390 bps y-o-y, dropping to 10.3%.
- Occupational markets remained strong. Quarterly gross take-up amounted to 129,170 sq m whereas net take-up totaled 63,165 sq m. Renewals were the main drivers of the market, representing 51% of the total leasing activity.
- Quarterly net absorption totalled 36,525 sq m, which is 25% higher than at the beginning of 2016.
- Prime office rental levels remained unchanged standing at €22 sq m / month.

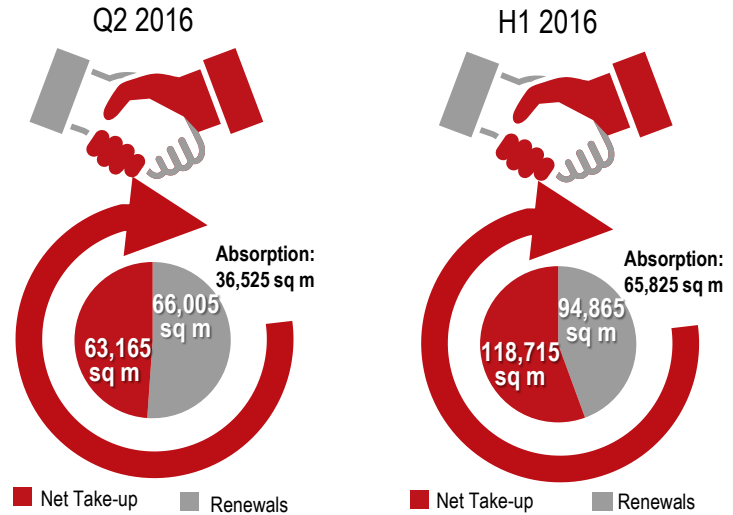
Prime Rents (€/sq m/month)



Distribution of existing stock and future supply



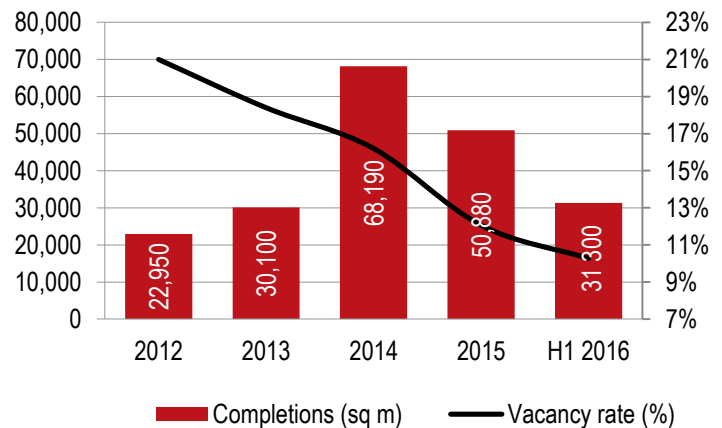
Demand



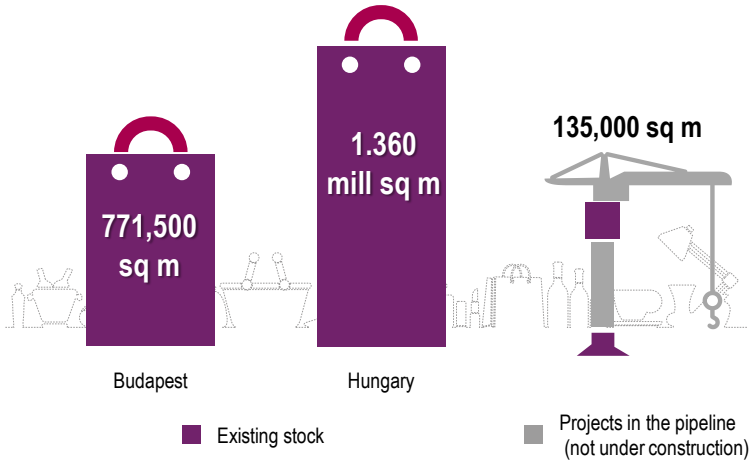
Half-yearly summary

- During the first half of 2016, the Budapest office market expanded by 31,300 sq m. At the beginning of the year, Atenor delivered the third phase of Váci Greens comprising 25,600 sq m while Váci 1 with 5,700 sq m office space was completed in Q2.
- Gross take-up amounted to 213,580 sq m whereas net take-up reached 118,715 sq m. Both indicators were below the 2015 record levels, when two mega-sized pre-lease agreements were recorded totaling 80,000 sq m and driving demand volumes to a record high.
- Half-yearly net absorption totalled 65,825 sq m, which is 18% below the H1 2015 volume.
- Vacancy continued to decline, falling to 10.3%, the lowest level in the past 8 years.
- Developers are starting to react to the limited availability. Four speculative constructions were launched in H1 2016 and it is highly likely that additional speculative construction will commence during the second half of the year.

Vacancy rate and completions



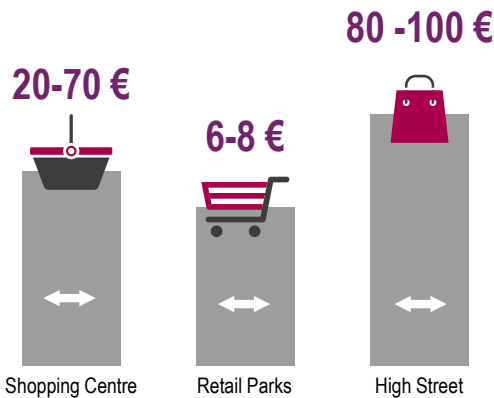
Shopping centre supply / stock (sq m)



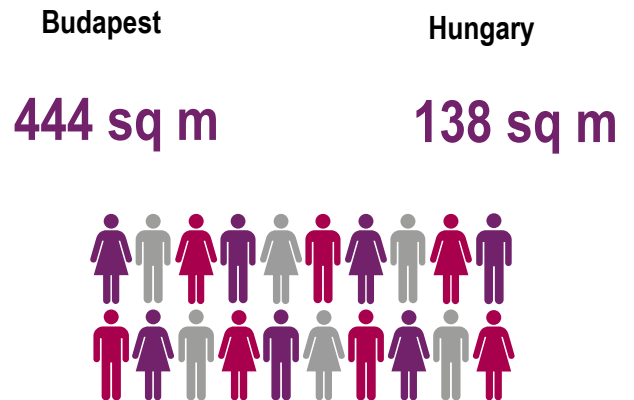
Quarterly summary

- At the beginning of 2016, personal income tax was cut to 15%, boosting the disposable income of households.
- Average net wages grew by 7.7% between January and May 2016, as a result of the personal income tax rate cut.
- Retail sales growth reached +5.1% between January and May 2016.
- The ban on Sunday trading has been cancelled. As a result, roughly two-thirds of shops which used to be open on Sunday decided to re-open. Therefore, the number of people employed in the retail sector started to increase.
- Horizon Development finished the transformation of Váci. The retail element of the scheme operates as the 3-storey flagship store of H&M, who relocated from Vörösmarty No.1 to the building. H&M has its largest Hungarian store in Váci 1 and leases office space there as well.
- 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.
- Prime shopping centre rents stands at €70 sq m/month.

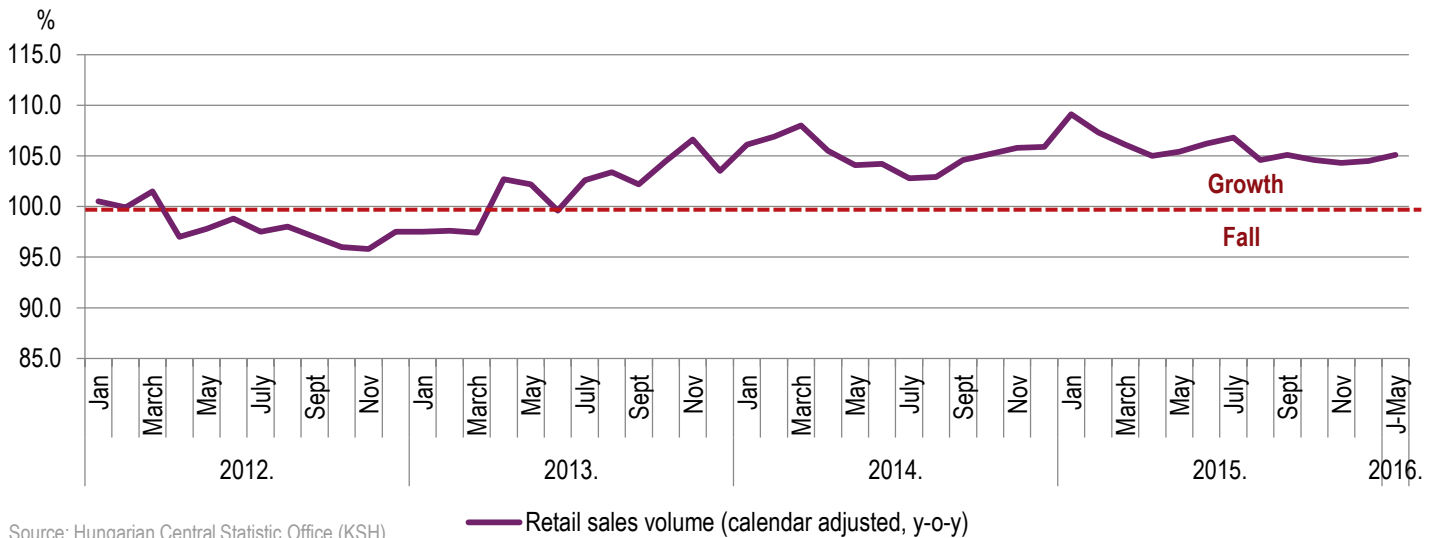
Typical rents (€/sq m/month)



Shopping centre density/ 1,000 inhabitants



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



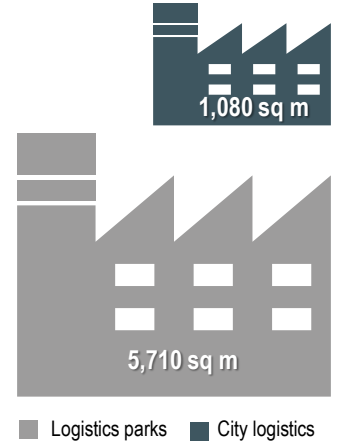
Quarterly summary

- In Q2 2016, the total industrial stock stood at 1.88 million sq m. The vacancy rate increased slightly by 110 bps q-o-q to 9.7%, which is still 400 bps below the level recorded a year ago (13.7%).
- Total quarterly leasing activity amounted to 92,070 sq m, which was 23% below the volume recorded in the previous quarter. On the other hand, net take-up totalled 32,350 sq m, reflecting a 3% increase on Q1 2016.
- The largest transaction of the quarter was a renewal of 20,860 sq m in Prologis Park Budapest Harbor Park.
- Gross take-up amounted to 210,330 sq m during the first half of 2016, being identical to the volume of the same period of 2015. The half yearly net take-up equalled 63,620 sq m, reflecting a sharp fall (42%) on H1 2015.
- The development pipeline has finally started to pick up with a moderate pace. The annual volume of completions is expected to reach 85,000 sq m.

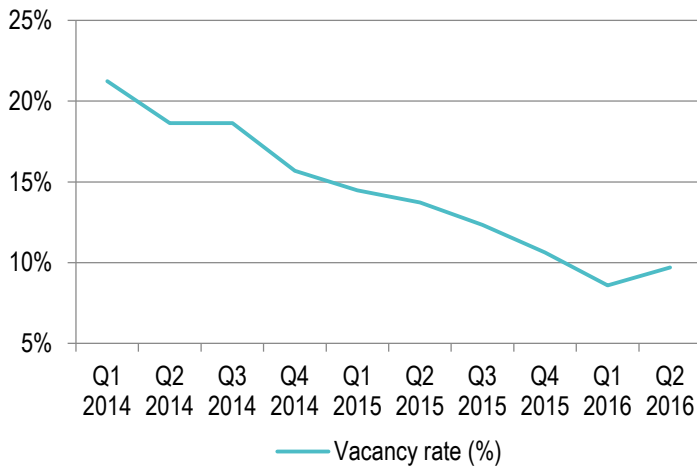
Stock / Supply



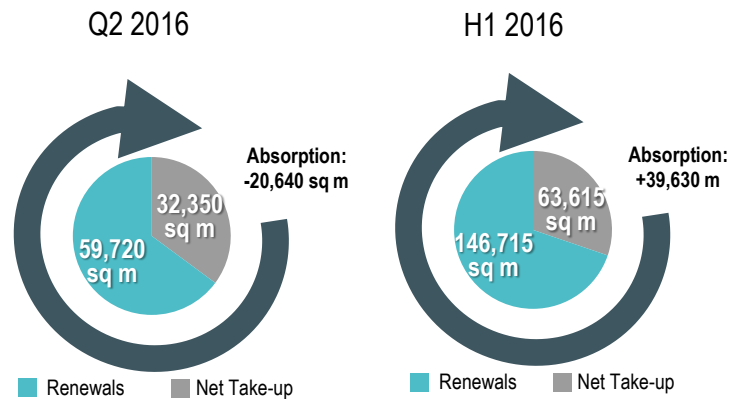
Average transaction size



Vacancy rate



Distribution of demand by type of take up

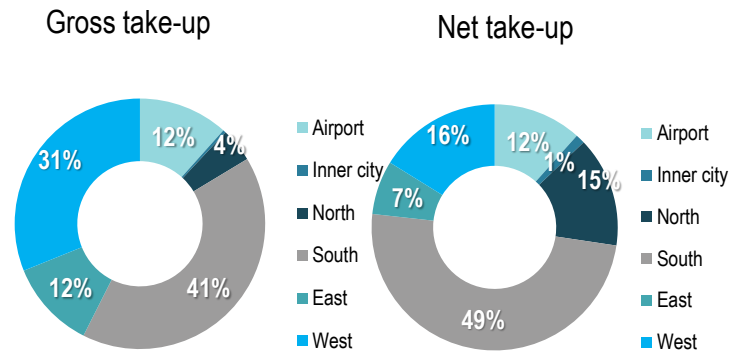


Key Transactions in Q2 2016

Property	Size (sq m)	Type of transaction
Prologis Park Budapest Harbor Park	20,860	Renewal
M0-Central Business Park	18,960	Renewal
Budapest Dock Szabadkikötő	7,200	Pre-lease
Prologis Park Budapest Harbor Park	5,760	Renewal



Distribution of demand by submarkets H1 2016





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