

Quick Stats

	Change from	
	Q3 08	Q4 07
Completion	↑	↑
Take-up	↓	↑
Vacancy Rate	↑	↑
Rent	↓	↓

Hot Topics

- Take-up remained strong until the end of 2008, resulting in a record high of 335,000 sq m
- Due to the high completion rate total modern industrial space grew by 30% y-o-y reaching 1,374,000 sq m
- Vacancy fluctuated throughout 2008 and stands a 16.4%; the highest year-end level ever

OVERVIEW

2008 proved to be a record year in the Hungarian industrial market both in terms of supply and demand. Several developments were completed and became successfully let with quarter on quarter take-up being significantly higher throughout 2008. Due to the high level of pre-lease agreements in the annual take up and the massive supply, vacancy in this sector has reached an all-time high of 16.4 % by year end. That said, in this period of deteriorating economic conditions we expect the logistics market to see a significant slowdown during 2009. Falling industrial output and recession in Hungary's most important trade partner countries have already impacted on the demand for industrial-logistics space. Expecting lower demand, developers re-think their strategies which means less aggressive expansion.

• Take-up

Gross demand reached 86,300 sq m in Q4 2008 which was the second highest quarterly level of 2008. Despite of the current economic slowdown this level was 30% higher than in the same period of 2007.

Take-up accounted for a total of 335,000 sq m in 2008, which is more than a 50% increase compared to 2007. Pre-lease agreements had a share of 26% in the annual figure, 5 p.p. higher than in 2007. Renewals represented only 7%.

• Completion

Currently the modern industrial stock of Budapest stands at 1,374,000 sq m. In 2008 265,700 sq m was completed and added to the stock. This was the highest annual completion level ever and more than twice the completion level of 2007 meaning that modern industrial stock grew by 30% in one year. In Q4 2008 some 73,000 sq m of space was added to the market, representing an increase of 43% q-o-q.

• Vacancy

The vacancy stood at 16.4% at the end of 2008 representing a 6 p.p increase compared to Q4 2007. The rate fluctuated throughout 2008 and there are several reasons behind its increase. Despite the fact that net take-up was strong and the same volume of the new supply was absorbed it is important to highlight a major logistic provider's bankruptcy earlier 2008 contributed to increasing vacancy level to a great extent.

• Rents

Headline rents are in the range of 3.5-5.5 EUR/sq m/month. Due to the strong competition developers need to offer higher incentives and fit-out contributions but only a minority of owners go down with headline rents. We assume that rents are already close to the affordable lowest level so further decrease seems to be unlikely.

	Q4 2007	Q3 2008	Q4 2008
Stock (sq m)	1,043,000	1,300,000	1,374,000
Space under construction (sq m)	140,000	110,000	125,000
Existing available space (sq m)	116,600	185,900	225,700
Quarterly take-up (sq m)	66,600	90,000	86,300
Annual take-up (sq m)	215,000	315,000	335,000
Prime industrial yield (%)	7.25%	7.75%	8.00%

SUBMARKET 1-BUDAPEST WEST

The stock of the largest submarket of Budapest stands at 627,000 sq m after a 20% increase during 2008. In the fourth quarter of 2008 only one new project was completed in Százhalombatta comprising nearly 30,000 sq m, developed by ProLogis. This project was the largest in the Budapest West submarket and second largest in the region. Demand represented 30% of the total take-up, reaching 22,300 sq m in the quarter which is below the annual average of 29,000 sq m in this submarket. Of gross demand 21,000 sq m was for one renewal signed by Fiege in ProLogis Harbor Park and thus net absorption reached its lowest level of 2008 in Q4.

Due to the relatively high completion level and the low net absorption, vacancy increased by 3.5 p.p. to 16.8% which is just above the Budapest average.

Headline rents vary considerably in this submarket, according to our evidence net effective rents achievable vary between 3.75-5.0 EUR/sq m/month depending on size.

SUBMARKET 2-BUDAPEST SOUTH

The modern warehouse stock reached 589,400 sq m in the Budapest South submarket. Stock in this submarket grew the most during 2008 with 139,000 sq m being added to the market, representing 28% annual growth. Some 24,400 sq m of this was in 2 parks at the end of the year. ProLogis generated 78% of annual completion in the submarket.

Gross take up accounted for 51,500 sq m in this submarket, the highest quarterly level of the year. It was generated mainly by pre-lease agreements; some 27,000 sq m was leased by Rossmann in the first project by Goodman at Üllő while the first phase of the M5 Gyál Business Park, due to completion in Q1 2009, became 35% pre-leased as well.

Vacancy stands at 13.6 % which is a 3.6 p.p. increase y-o-y but still below the Budapest average by 2.8 p.p.

Headline rents vary in the widest range in the Budapest South submarket as it includes both inner city logistics and the most expensive parks where traditional big box warehouses are located. Typical net effective rents are between 3.5-5.5 EUR/sq m/month.

SUBMARKET 3-BUDAPEST NORTH

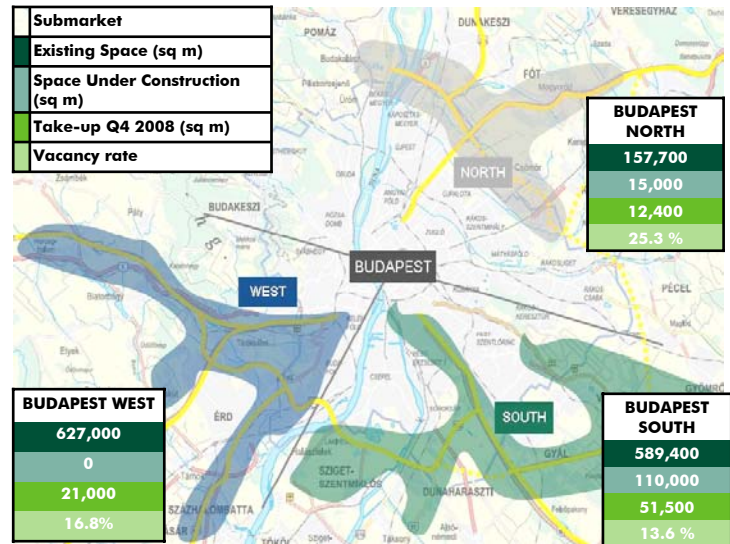
The modern stock of this submarket comprises 157,700 sq m after new phases of Európa Center of 19,000 sq m were added in Q4 2008.

Only three new lease agreements were signed in the last quarter; in East Gate Business Park and Európa Center accounting for 12,400 sq m, which is equal to the annual average of take-up in the submarket.

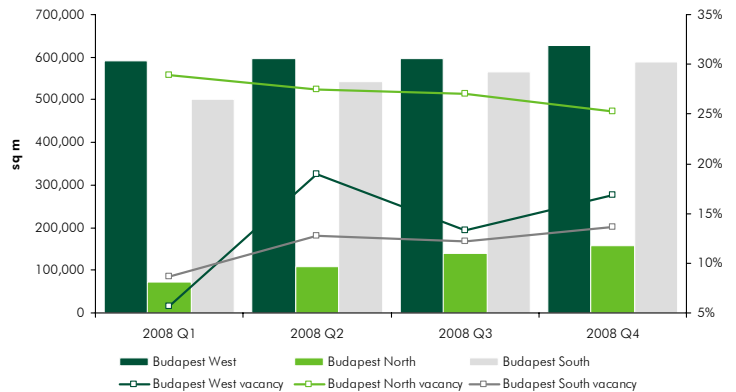
The vacancy level showed continuous decrease through 2008 and stood at 25,3% at the year end. Although still significantly higher than the average Budapest vacancy, further decrease of it is expected as new supply will be limited in the submarket in 2009.

Currently achievable net effective rents vary between 4.0-5.0 EUR/sq m/month.

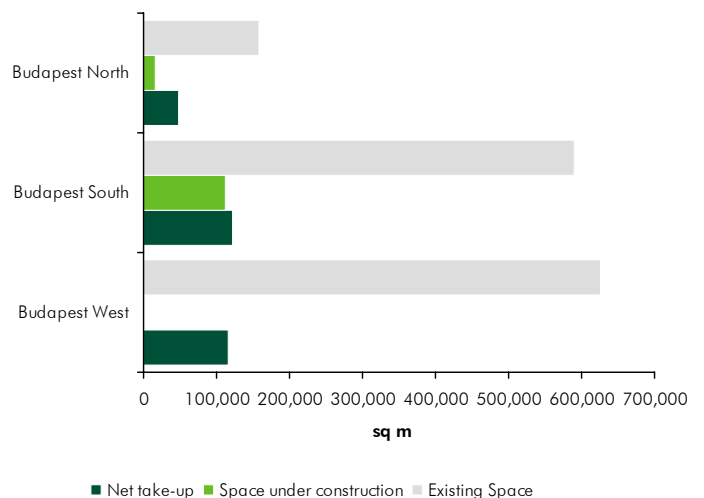
Modern Warehouse Space in Hungary



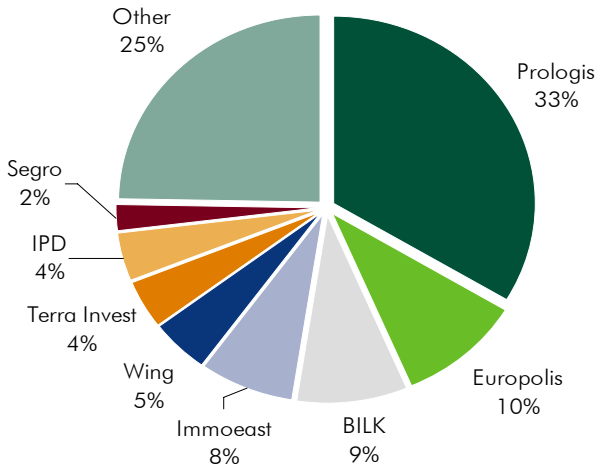
Industrial Market development in Hungary



Key Indicators by submarkets



Ownership Share-Existing Stock at Year End 2008



DEVELOPERS

The Hungarian industrial market is very much influenced by market leader ProLogis, which was ranked first among the industrial developers having a 33% share of the total modern industrial space of 2008. It is followed by Europolis, controlling 10% of the market, BILK and Immoeast.

All 4 developer's market share will decrease during 2009 if new planned developments by other developers will be realized by year end. The share of developers such as IPD, Terraininvest, Autóker is likely to increase as they have several projects under construction due to completion by H1 2009.

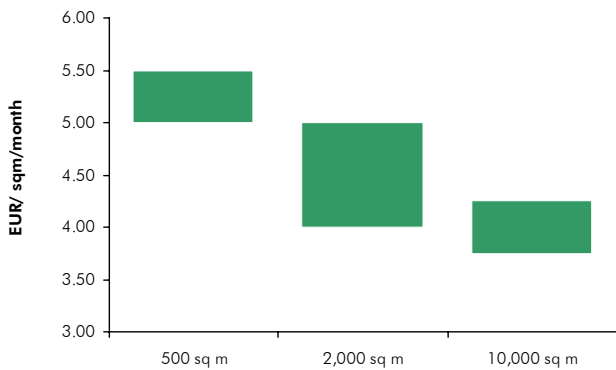
It is important to mention that due to the economic uncertainty, several developers have decided to hold back their speculative development for 2009 and are willing to complete only BTS or preleased projects.

INVESTMENT

Investment market came to a still stand in 2008, not only in Hungary but in the whole region. The total investment volume reached some EUR 410 mln in 2008, out of that ca. 5% was for logistics related transactions, which is a lower share than in previous years. The only significant logistics deal in 2008 was the sale of Tulipan Park for ca. EUR 20 mln in Budapest West (Biatorbágy, 28,000 sq m).

The future investment market remains very much restricted to core assets (prime office and retail) so we do not expect logistics related property investment to catch up in 2009 either. Yields have significantly moved out, at year end prime yield is quoted as 8% (compared to 6.75% in 2007) and further decompression is likely to take place during 2009.

Rental levels in Greater Budapest



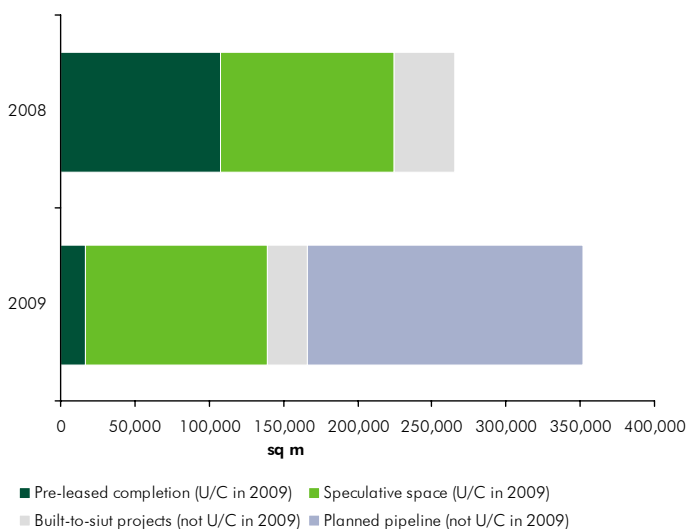
2009 OUTLOOK

The first half of 2009 will show high activity in terms of supply as several large developments due to complete. 125,000 sq m modern industrial space is currently under construction, the same level as in January 2007. The level of new supply in H2 2009 remains questionable; due to economic uncertainty and difficulties in obtaining finance we expect the level of speculative development to decrease significantly this year.

The vacancy rate is likely to increase further in H1 and throughout the year, due to massive supply and declining demand. Calculating with the take-up level of 2006 it is expected to stand around 20% by year end 2009.

Headline rents will remain static in the range of 3.5-5.5 EUR/sq m/month, although due to competition developers may be forced to offer further incentives, resulting in lower net effective rental levels.

Speculative construction in Hungary



Selected Industrial Lease Transactions, 2008

Tenant name	Project name	Submarket*	sq m
Unilever	ProLogis Park Budapest-Harbor Park	Budapest West	21,500
Rossmann*	Goodman Üllő	Budapest South	27,000
Fiege*	ProLogis Park Budapest-Harbor Park	Budapest West	21,000
UTi	ProLogis Park-Sziget	Budapest South	21,000
Agility Europe	BILK	Budapest South	15,000
Geodis	ProLogis Park Gyál	Budapest South	15,000
Müller	Tulipán Park	Budapest West	9,000
GE Hungary	East Gate Business Park	Budapest South	6,300
A.Schulman	IPD Vendel Park	Budapest West	3,000
Panalpina*	Airport City	Budapest South	3,000

* deals signed in Q4 2008

Definitions

STOCK – warehousing space in modern, Class-A, developer-led schemes

VACANCY RATE – a ratio of vacant warehouse space to total stock

TAKE-UP – net warehouse space that has been leased in a given period (does not include temporary deals, which are less than 1 year); defining moment is the signature of legally binding document such as future agreement/lease agreement

UNDER CONSTRUCTION – developer-led warehouse space currently being developed

NET ABSORPTION – the change in occupied stock within a market during the survey period; the main factors that cause the net absorption and take-up to be different are lease extensions, pre-leases signed in previous survey period, tenants moving between existing premises or tenants leaving the industrial market.

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