Market View

Big Box Budapest

Q2 2010

Quick Stats

	Change from Q1 10	Change from Q2 09
Completion	↓	↓
Take-up	↓	↑
Vacancy Rate	↓	↓
Rent	↘	↘

Hot Topics

- Total leasing activity increased by 50% q-o-q, but take up (excluding renewals) was down by 18% q-o-q.
- Vacancy witnessed a minimal decrease and stands at 19.2%.
- Net absorption doubled q-o-q reaching 15,300 sq m, more than ten times as much as in the same quarter of last year.
- Completion was almost half of the new supply's volume in Q1 2010.

OVERVIEW

The industrial market is still very much affected by the consequences of the economic downturn, however in H1 2010 a positive change was experienced in terms of total leasing activity and take up compared to the same period of 2009. The growth in demand is undeniable and it paralleled with the shrinking vacancy rate from 23.1% to 19.2% y-o-y but macroeconomic forecasts and the low number of registered transactions during the first half of the year support that in 2010 no significant improvement in the industrial market's indices' is probable. This assumption is also underpinned by the decrease of take-up by 18% q-o-q despite the higher total leasing activity in Q2 2010.

- **Demand**

Total leasing activity reached 54,500 sq m in Q2 2010 which reflects a 50% increase q-o-q. Out of this volume 47% (25,700 sq m) accounted for renewals, 29% (15,800 sq m) for new transactions, 24% (13,000 sq m) for expansions; while no pre-leases were signed. The distribution of the deal types clearly shows that the growth of the total leasing activity was generated by a higher share of renewals instead of new transactions picking up, as during the first quarter of 2010 renewals represented only 4.7% of the TLA. Excluding renegotiations, take-up reached 28,800 sq m in Q2 2010 which reflects a 18% decrease compared to Q1 2010. However, even this lower volume of take up is above the take up level of Q2 2009 by almost 130%. 27 lease agreements were signed during this quarter, with an average deal size of 2,020 sq m. Not taking into account renewals and expansions, 17 new transactions were signed with an average unit size of 930 sq m. It is a higher number of transactions than in Q1 2010 but a significantly lower average unit size.

- **Completion**

New supply reached 11,000 sq m, nearly half as much as the volume of completion in Q1 2010. Two new projects were completed, built-to-suit developments in the Budapest West submarket both.

- **Vacancy**

The vacancy rate decreased slightly by 30 bps q-o-q and stands at 19.2%. This was due to the facts that newly completed schemes were 99% pre-let and net take up was high enough to offset the amount of newly vacated space in existing buildings. Exception is the Dunaharaszti raktárbázis, which became 100% vacant on 13,200 sq m after its tenant vacated the warehouse.

- **Rents**

Rental decline seems to be coming to an end and rents start to stabilise. Headline rents are in the range of 3.0-4.0 EUR/sq m/month in big-box warehouses and 4.5-5.00 EUR/sq m/month in city-logistics.

	Q2 2009	Q1 2010	Q2 2010
Stock (sq m)	1,607,400	1,758,600	1,769,500
Space under construction (sq m)	53,000	28,000	35,000
Existing available space (sq m)	369,000	343,500	334,500
Quarterly total leasing activity (sq m)	30,200	36,500	54,500
Annual total leasing activity (sq m)	216,900	271,000	321,800
Quarterly Take up (sq m)	12,600	34,800	28,800
Net absorption	1,250	7,500	15,300
Prime industrial yield (%)	9.50%	9.50%	9.25%

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SUBMARKET 1-BUDAPEST WEST

The modern industrial stock stands at 629,600 sq m in the Budapest West submarket. It grew by 11,000 sq m after two new schemes were completed; one by ProLogis in Százhalombatta with 10,200 sq m (completely pre-let) and another one by IPD with 800 sq m (50% pre-let) in Nagytétényi Industrial Park. We do not expect new completions during the second half of the year in this submarket.

Total leasing activity was the highest in this submarket, more than four times as much as in the previous quarter, reaching 40,500 sq m, out of which renewals represented 54% meaning that take up accounted for 18,500 sq m. The largest transaction was the expansion of Tesco in Agrogate on 6,000 sq m.

The vacancy rate decreased as net absorption was positive. The rate is below the Budapest average at 18.0% and reaching roughly the same rate in big-boxes and city-logistics as well.

Currently headline rents vary between 3.0-4.0 EUR/sq m/month in big box warehouses and 4.2-4.5 EUR/sq m/month in city-logistics.

SUBMARKET 2-BUDAPEST SOUTH

The modern warehouse stock currently stands at 960,000 sq m in this submarket, no new projects were completed this quarter. Currently there are two projects under construction on 35,000 sq m due to completion during H2 2010.

Total leasing activity reached 12,650 sq m in this submarket, out of it renewals represented 30% (3,800 sq m). The largest transaction was an expansion on 5,000 sq m in M5 Gyál Business Park.

Although this submarket has the lowest vacancy rate among the submarkets with 17.7%, it increased q-o-q as 13,200 sq m became vacant in Dunaharaszti raktárbázis. The rate stands at 16.5% in big boxes and 34.9% in city-logistics, which is the highest rate among the vacancies of the city-logistics schemes in the Budapest market.

Headline rents depend on property type and location. The ranges vary between 3.5-4.0 EUR/sq m/month in big box warehouses and around 5.0 EUR/sq m/month in city logistics.

SUBMARKET 3-BUDAPEST NORTH

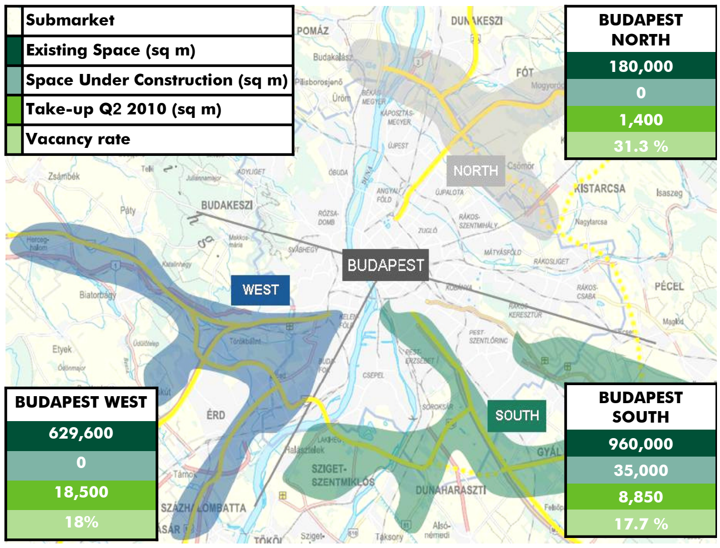
The modern stock of this submarket comprises 180,000 sq m. No new schemes were handed over here in Q2 2010 and there are no ongoing constructions.

Total leasing activity was down by 57% q-o-q, reaching only 1,400 sq m. Three new transactions were concluded in this submarket in Európa Center.

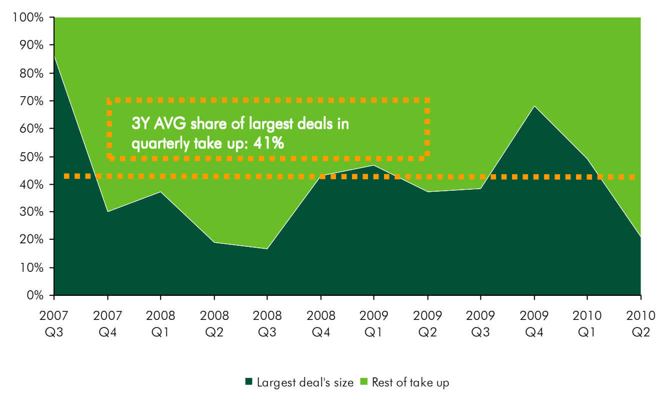
The highest vacancy was registered in this submarket similarly to the previous quarters. The amount of supply decreased and the rate stands at 31.3%. Big-boxes operate with an average of 28.7% vacancy rate while city-logistics with 34.9%.

Currently headline rents vary between 3.50-4.00 EUR/sq m/month is big box warehouses and 4.5-5.0 EUR/sq m/month in city-logistics.

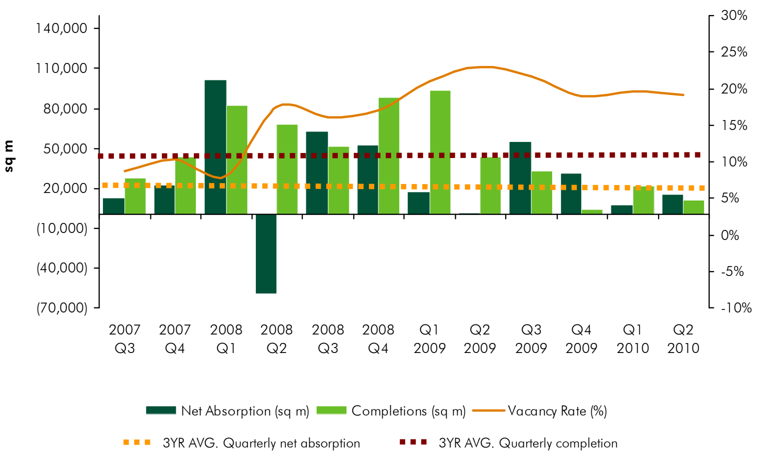
Modern Warehouse Space in Hungary



Largest deal's share in quarterly take up



Industrial market trend Q3 2007-Q2 2010



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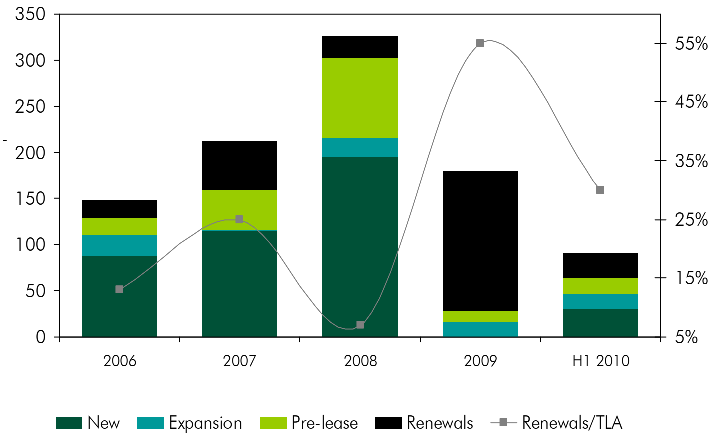
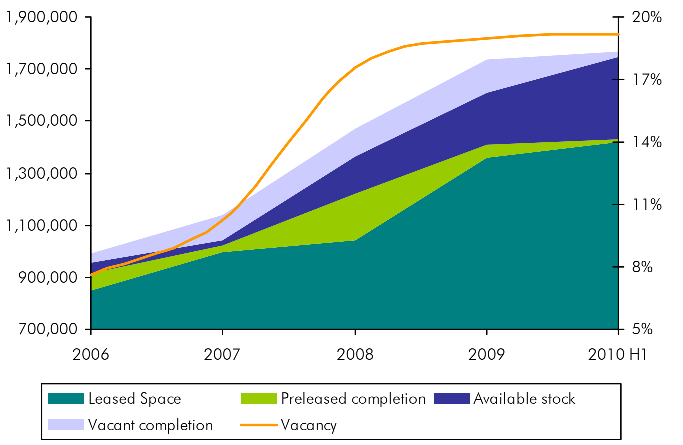
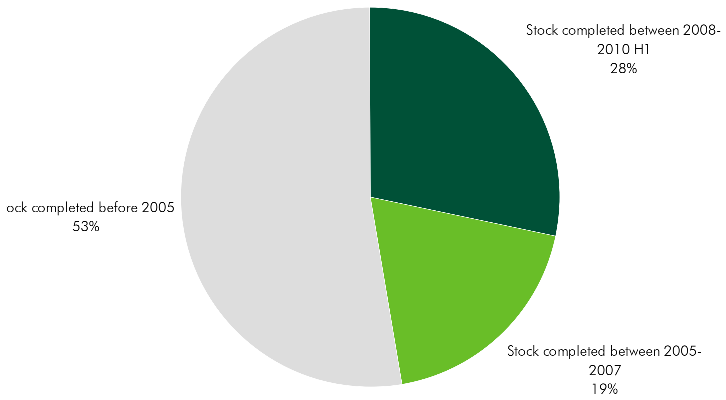
TLA by type of lease



Distribution of industrial stock and completion



Stock by completion date



H1 2010 SUMMARY

Total leasing activity reached 91,000 sq m in H1 2010, which is a 125% increased y-o-y. From this renewals represented 30% (27,500 sq m), expansions 17% (15,400 sq m), new deals 34% (31,200 sq m) and pre-leases 19% (17,000 sq m). TLA represented 15,100 sq m in city-logistics and 75,900 sq m in big-boxes.

Take up accounted for 63,600 sq m which is more than three times as much as the registered take up volume in H1 2009. Although this volume seems promising, 27% was generated by one large transaction of 17,000 sq m by Oriflame. The average deal size was approximately 2,000 sq m (including expansions). Expansions, pre-leases and new transactions comprised 51,600 sq m in big-boxes and 12,000 sq m in city-logistics.

During the first half of 2010 four schemes were handed over totaling 32,800 sq m. Out of them two were city-logistics warehouses (6,700 sq m) and two big box type schemes (26,100 sq m). Currently there are two projects under construction on 35,000 sq m, both of them being big-boxes.

The Budapest average vacancy rate stands at 19.2% after a 3.9 pps decrease from H1 2009.

Prime industrial yield now stands at 9.25% as of Q2 2010.

OUTLOOK

- **Demand**

We do not expect demand to pick up significantly during H2 2010 even though positive annual growth which was recorded in H1 2010. 32 new transactions were closed during the first half of 2010 and out of them there were only 4 deals above 5,000 sq m, generating 50% of the take up while the average size of the remaining 28 transactions was 1,080 sq m. Besides, the volume of manufacturing is not expected to reach its 2008 level until 2013; while the growth of retail sales is expected to remain negative in 2010 only reaching its 2008 volume again in 2012. As these sectors are the major drivers of demand for industrial space, their predictions indicate that we can not expect a significant growth in demand earlier than 2012. Take up in 2010 is not likely to exceed its volume in 2009 (120,000 sq m).

- **Vacancy**

The vacancy rate is likely to remain around 19% by year end 2010 as two schemes will be vacated comprising more than 50,000 sq m in the Budapest South submarket. In case of no speculative developments start during 2011 and 2012 the vacancy rate will rapidly decline even in terms of modest leasing activity. According to our estimations available space could even vanish by 2013, therefore we expect that some sort of speculative development activity will reappear during 2012 but not sooner.

- **Rents**

Rents will remain low until the vacancy rate decreases; as currently it stands at 19% less pressure on rents is not likely to be perceptible before year end 2011.

Selected Industrial Lease Transactions, H1 2010

Tenant name	Project name	Submarket	sq m
Oriflame	Üllő Airport Logistics Centre	Budapest South	17,000*
Tesco	Agrogate	Budapest West	6,000
Confidential	M5 Gyál Business Park	Budapest South	5,000
Kühne&Nagel	Agrogate	Budapest West	4,600
Alföldi tej	Rozália Park	Budapest West	2,550
Sanotechnik	Nagytétényi Industrial Park	Budapest West	2,500
LGI	Europolis Park Budapest M1	Budapest West	2,000
Trend-Papír Budapest	Innove Business Park	Budapest South	1,200

* pre-lease

Definitions

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

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

TOTAL LEASING ACTIVITY – total 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.

TAKE-UP – total leasing activity in a given period minus leases signed in which a tenant stayed in the same warehouse space (i.e. lease renewals, lease extensions, lease renegotiations).

UNDER CONSTRUCTION – developer-led warehouse space currently being developed

NET ABSORBTION – 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 singed in previous survey period, tenants moving between existing premises or tenants leaving the industrial market.

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