

## Quick Stats

	Change from	
	Q3 09	Q4 08
New Supply	↓	↓
Total leasing activity	↑	↑
Vacancy rate	↓	↑
Rent	→	↓

## Q4 2009 Hot Topics

- Vacancy rate slightly decreased to 22%
- Only 4,300 sq m completed in Q4
- Total leasing activity reached ca. 184,200 sq m, out of which net take-up was 57,000 sq m
- Headline rents ranged 3.0-5.0 EUR/sqm/month

## 2009 Hot Topics

- The growth of the total modern industrial space slowed down to 12% y-o-y reaching 1,543,500 sq m
- 170,000 sq m completed in 2009
- Total leasing activity reached 274,700 sq m out of which net take-up accounted for 124,000 sq m
- The growth of the vacancy rate was forecast. Due to the low net take up levels it increased up to 22%
- Rents remained under pressure

## OVERVIEW

The industrial market was characterised by only moderate activity both in terms of leasing and completion in 2009. The downturn was especially striking after 2008 which proved to be a record year in terms of both demand and supply. The effects of the global economic turmoil resulted in weakened industrial output, decreasing orders in all logistic sectors with the automotive industry also significantly affected. All these factors contributed to a negative affect on the industrial property market. Ongoing construction projects from 2008 continued but no new speculative projects were started in 2009. Demand was limited during the whole year and only a few developers managed to conclude larger new transactions in Q4.

### • Total leasing activity

Gross demand reached 184,200 sq m in Q4 2009 which was the highest quarterly level ever recorded on the market. Although this figure seems to be promising it is important to stress that renewals represented almost 70% of the total volume meaning that net take-up accounted for 57,000 sq m the highest quarterly volume in 2009. However it is below the registered net take-up volumes in every quarter of 2008, this demand was healthy again in historical perspective.

The total leasing activity accounted for a total of 274,700 sq m in 2009, which is a 18% decrease compared to 2008. While renewals represented only 7% of the total leasing activity in 2008, they had a significant share in 2009 at 55%. Net take up was 124,000 sq m in 2009, which is 40% of the level a year ago. Undeniably there were several expiring lease agreements in 2009 but many companies decided to extend their agreements in advance whilst renegotiating lease conditions and space requirements.

### • Completion

Currently the modern industrial stock of Budapest stands at 1,543,500 sq m. In 2009 170,000 sq m was completed and added to the stock. This was 37% lower than the record completion level of 2008 when the industrial stock grew by 30%. In Q4 2009 only one project was completed with 4,300 sq m, the handover of other speculative projects has been postponed until 2010. During the last quarter construction of one small BTS (Built to Suit) project started.

### • Vacancy

The vacancy rate reached 22% at the end of 2009 representing a 5.5 p.p increase compared to Q4 2008. The rate did not fluctuate between a wide range, and steadily decreased from 24.5% (Q2) to 22.0% (Q4).

### • Rents

Headline rents are in the range of 3.0-5.5 EUR/sq m/month. Similarly to 2008 developers are still offering higher incentives and fit-out contributions but unlike in 2008 many of them lowered slightly their headline rents as well. To fill up their projects some developers continue their aggressive pricing strategy.

	Q4 2008	Q3 2009	Q4 2009
Stock (sq m)	1,374,000	1,539,200	1,543,500
Space under construction (sq m)	125,000	26,200	22,900
Existing available space (sq m)	226,500	368,300	339,900
Quarterly total leasing activity (sq m)	86,300	47,400	184,200
Annual total leasing activity (sq m)	335,000	315,000	274,700
Prime industrial yield (%)	8.00%	9.50%	9.50%

### SUBMARKET 1-BUDAPEST WEST

The stock of Budapest West submarket stands at 632,400 sq m. In the fourth quarter of 2009 no new projects were completed here and only one BTS scheme was handed over during the whole year.

Demand represented 65% of the total leasing activity in Greater Budapest, reaching 120,500 sq m in the quarter. The largest transaction of the year was concluded here on 38,700 sq m in ProLogis Park Budapest-Batta while lease agreements were extended in Euro Business Park. Net take-up was only 35% of total leasing activity as renewals had the highest share.

The vacancy rate decreased by 2.6 p.p. to 20.8%, meaning that this is the only submarket where it stands below the Budapest average.

Headline rents vary between EUR 3.0-4.5/sqm/month depending on projects.

### SUBMARKET 2-BUDAPEST SOUTH

The modern warehouse stock reached 737,500 sq m in the Budapest South submarket by year end 2009 where new projects completed in every quarter. Stock in this submarket grew the most during 2009 with 148,300 sq m being added, representing 6% annual growth. Of the eight completed projects two were BTS schemes and pre-lease agreements were signed in others. Currently there are no new projects under construction therefore 2010 H1 might be the first period in recent years when the submarket will have no growth.

Gross take up accounted for 55,200 sq m in this submarket, the highest quarterly level of the year here. Again it was generated mainly by renewals; lease agreements on some 48,000 sq m were renegotiated in ProLogis Park Budapest-Gyál where Sauflon decided to expand by app. 7,000 sq m as well.

Vacancy stands at 21.9 % which is a 8.1 p.p. increase on last year but a slight decrease q-o-q meaning a positive sign against of the relatively strong annual completion and a weak take-up figures.

Headline rents are between 3.5-5.5 EUR/sq m/month.

### SUBMARKET 3-BUDAPEST NORTH

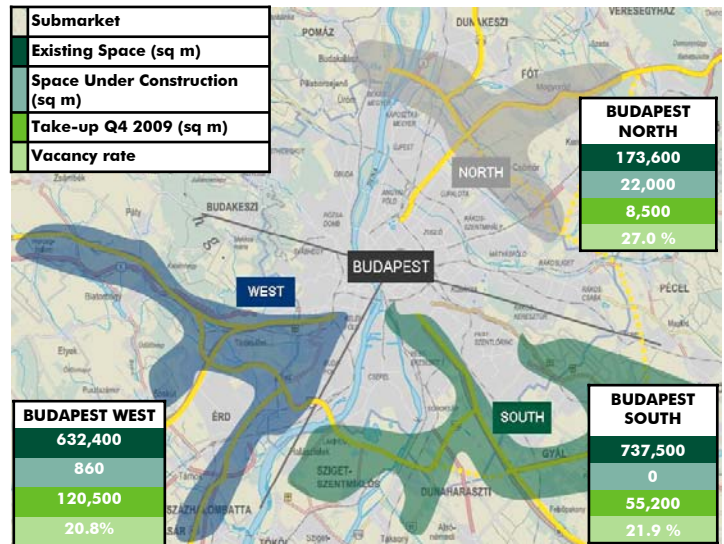
The modern stock here comprises 173,600 sq m. No new projects were completed in the last quarter of 2009. The handover of two projects was delayed therefore only two schemes were completed here during the whole year.

Several new lease agreements were signed in the last quarter in Európa Center covering almost 8,500 sq m.

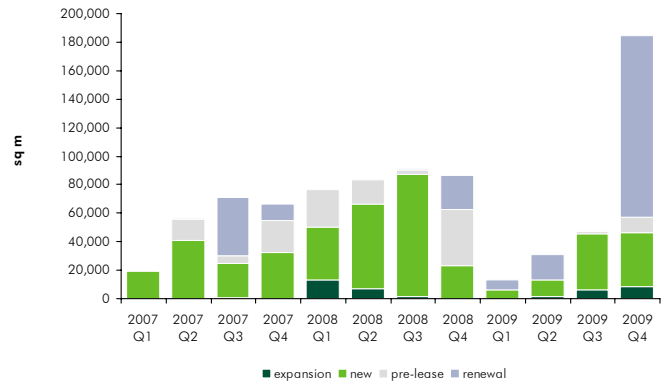
This submarket currently has the highest vacancy level, at 27% which is a 1.7 p.p. increase y-o-y, but a 2.47 p.p. decrease q-o-q, meaning that during Q4 2009 the vacancy rate managed to decrease in every submarket. However we expect the rate to increase slightly after the handover of the two schemes under construction, estimated for H1 2010.

Currently headline rents vary between 3.5-5.0 EUR/sq m/month.

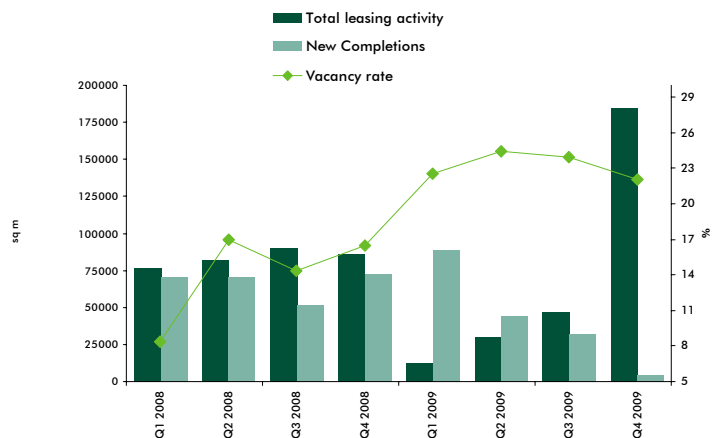
### Modern warehouse space in Hungary



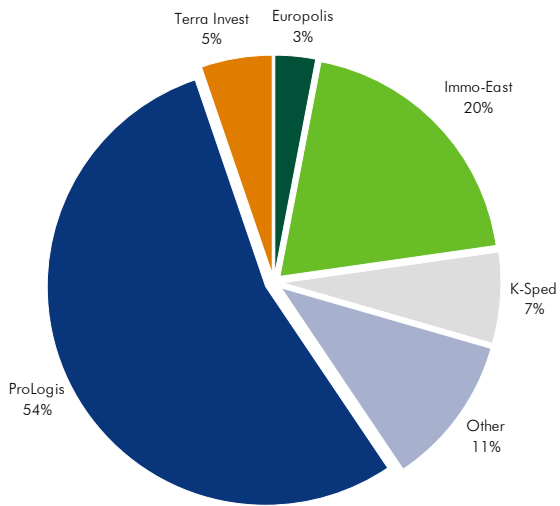
### Split of total leasing activity



### Key indicators in Greater Budapest



**Developers' share of the total leasing activity in 2009**



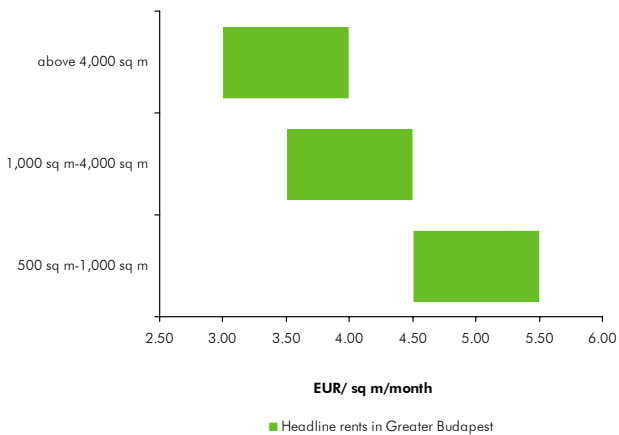
**DEVELOPER MARKET**

If we take a look at the different developers' share of the total leasing activity we see that during 2009 ProLogis managed to keep its leading market position. They have a 31% share of the total modern industrial space in Greater Budapest and approximately 54% of the total leasing activity was registered in one of the American developer's parks. K-Sped, IMMOEAST and Terra Invest had a significantly lower share of the gross demand but still relatively higher than any other.

If we compare the developers' share of the net take up, we get slightly different ratios. ProLogis still dominates the market by 40% but IMMOEAST share decreases while K-Sped's and Terra Invest's increases.

So far 2010 is expected to be a quiet year in terms of new development. Only ProLogis is starting work on expanding their park in Százhalombatta on further 10,200 sq m, which was pre-leased Q4.

**Rental levels in Greater Budapest**

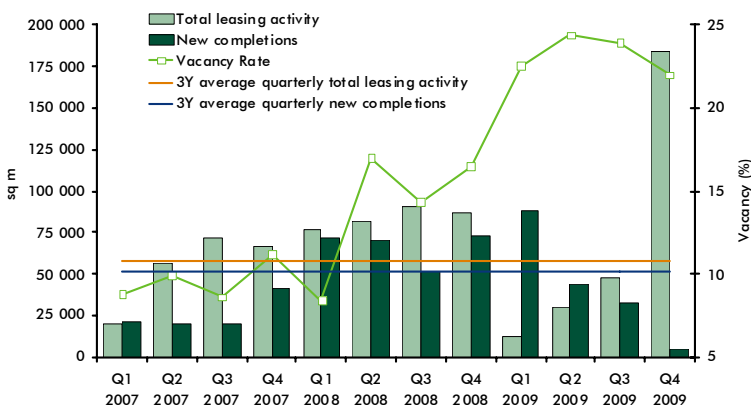


**INVESTOR MARKET**

The largest industrial investment deal in 2009 was the sale & lease-back transaction for TESCO logistics schemes in Greater Budapest area. Deal size was EUR 63 million.

The investment market in Hungary remains significantly affected by the recent decline, with investors only now turning back to look at core retail and office products, over industrial assets. Many industrial schemes are now perceived as over rented which further affects value and marketability. That said, we consider prime yields to have stabilised around 9.5% for a rack rented property.

**Speculative construction in Hungary**



**2010 OUTLOOK**

**• Supply**

The first half of 2010 will show only limited activity in terms of new supply and we do not expect larger projects to start on a purely speculative basis at any point in the next year. Currently there are only two projects under construction and the works on the third one by ProLogis will start shortly.

**• Vacancy**

The vacancy rate is not expected to jump further during 2010 as new supply will be limited. If no larger scale new speculative development starts the rate will inevitably continue shrinking and it is likely to bottom around 15-17% at H2 2010 similar to the 2008 year end level.

**• Rents**

Headline rents will remain around the same level as in 2009 during H1 2010. Generally we do not foresee further significant decrease in effective rental levels in most projects. However, there are some larger parks where the vacancy rate has been high for several quarters therefore the owners/developers are willing to offer larger spaces for a price below market average.

## Selected Industrial Lease Transactions, 2009

Tenant name	Project name	Submarket	sq m
confidential	ProLogis Park Budapest-Batta	Budapest West	38,700*
Geodis	ProLogis Park Budaörs	Budapest West	29,000*
Wincanton	ProLogis Park Budapest-Gyál	Budapest South	20,500*
Auchan	Viktória Park	Budapest South	18,000
General Motors	Euro Business Park	Budapest West	12,000*
Sauflon	ProLogis Park Budapest-Gyál	Budapest South	7,000*
Papyrus	BILK	Budapest South	5,000
confidential	M1 Business Park	Budapest West	4,000
Archirex	M5 Gyál	Budapest South	2,300
Pet Pack	Európa Center	Budapest North	2,000

\* deals signed in Q4 2009

### 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.

NET 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 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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