

# Market View

## Hungary Retail

www.cbre.eu/research

November 2009

### Quick Stats

Change from Nov 2008

	Budapest	Regional
Prime Rents	↓	↓
Prime Yields	↑	↑
New Supply	↗	↓
Pipeline	↓	↓

### Hot Topics

- Current modern retail stock in Budapest stands at 0.8 mln sq m while rest of the country has 1 mln sq m of retail space
- Since the crisis started, brands in general have stopped their expansion policies; only one prime scheme in Budapest opened with new flagship stores this year
- Retail sales have decreased by 6% since year end of 2006 – this was the last year of positive growth
- Modest depreciation of HUF helped retail tourism but hurt turnover rents
- Rents have fallen back from their peak in 2007 by cca. 15-30% depending on format and location
- Prime yields have increased from 5.75% in Q4 2007 to 7.75% in Q3 2009 – but are now considered stable

### OVERVIEW

The current modern retail stock<sup>1</sup> in Hungary exceeded 1.83 million sq m in November 2009. Of the current modern stock 1.13 million sq m is located in shopping centres while the remaining 0.70 million sq m is in retail parks (strip-malls and to a lesser extent in outlet centres). Although shopping centres still make up the majority of the retail provision with 62%, retail parks clearly have been on rise in recent years: their share is up from 11% in 2004 to 38% in 2009. This trend is likely to slow as the development of retail parks gives way in favour of new shopping centre development and expansion.

Budapest has a modern retail stock of 835,000 sq m, with the remaining stock of 995,000 sq m located in regional and other cities outside of Budapest. Although the capital is the single biggest market in Hungary, regional cities and other towns have a combined share of 54% of the Hungarian stock. Due to developers' activity outside of Budapest over the last couple of years, Budapest's share of total retail stock went from 67% in 2004 to 46% in 2009. Taking account of the future pipeline for Hungary, we expect the split to remain constant for the foreseeable future.

#### • New completion

The modern retail stock has grown by cca. 190,000 sq m in 2009, which is noticeably lower than the completion peak in 2008 with over 270,000 sq m. Future pipeline is limited: some 200,000 sq m of new space is under construction and expected to be delivered in 2010 or 2011.

2009 COMPLETIONS	Format <sup>1</sup>	Project Name (City)	Size (sq m)
Budapest	Shopping Centre	Allee (Budapest District 11 <sup>th</sup> )	47,000
	Retail Park	no completion	
Regional Cities	Shopping Centre	no completion	
	Retail Park	Dunacenter (Győr)	16,500
		Prémium Center (Székesfehérvár)	16,000
Other Cities	Shopping Centre	Kanizsa Center (Nagykanizsa)	16,000
		Airport Center (Tököl)	23,500
		Zala Park (Zalaegerszeg)	23,500
	Retail Park	Family Center (Mohács)	14,500
		Corso (Kaposvár)	12,500
		Stop.Shop (Gödöllő)	10,000
		Family Center (Szolnok)	9,500

#### • Rental level

Rental levels vary considerably depending on location and format of the retail space. Like all market sectors, retail base rents are under pressure in most retail environments with demand slowing as retailers change their strategies and slow expansion plans. Due to decreasing retail sales for approximately the last 30 months, turnover rents have been affected.

OVERVIEW	Budapest	Regional Cities <sup>1</sup>	Other Cities
Shopping Centre (SC) (sq m)	610,000	360,000	165,000
Retail Parks (sq m)	220,000	125,000	340,000
Modern Retail Stock (sq m)	835,000	485,000	505,000
Prime rents (per sq m/month) <sup>2</sup>	EUR 75	EUR 20	EUR 15

<sup>1</sup> Please see definitions on the back page

<sup>2</sup> Base rent only for a 200 sq m unit in shopping centres, does not include turnover rent

**STOCK**

The current modern retail stock in Budapest (835,000 sq m) is far above the average of the retail stock in regional cities (cca. 60,000 sq m per city). As Budapest has a much larger population than any other city in Hungary, the huge gap in stock does not translate into significant density differences. Budapest has a provision rate of cca. 490 per 1,000 inhabitants which is lower or close to the level seen in three regional cities (including Debrecen, the second largest town in Hungary). Currently the third (Miskolc) and fourth (Szeged) largest towns have the lowest density figures of around 290 per 1,000 inhabitants.

Future pipeline in absolute terms is largest in the capital but in relative terms the most significant increase is expected in Szeged, which will be the fourth regional town to reach the retail density level of Budapest by 2011.

The retail development pipeline has been quite strong until recently. Since 2007 there have been increased completion levels across all locations. The most significant increase took place in outside of Budapest, especially in the retail parks sector in smaller cities.

The future pipeline based on the current schemes under construction is limited; in the next two years completions will decrease to a level seen back in 2005-2006. The biggest decrease in pipeline took place in the retail parks sector across all locations – in general developers are keeping their focus on shopping centres in Budapest and major regional cities.

**RENTS**

Highest rents are still achievable in Budapest on the prime pitches of *Váci utca* and *Andrássy út* and in recent years the lack of availability here meant rental levels were sustainable. Premium rents are still achievable for the prime high street pitches however the current increase in vacancy rates has meant a decrease in high street rental values bringing them more in line with the prime shopping centres.

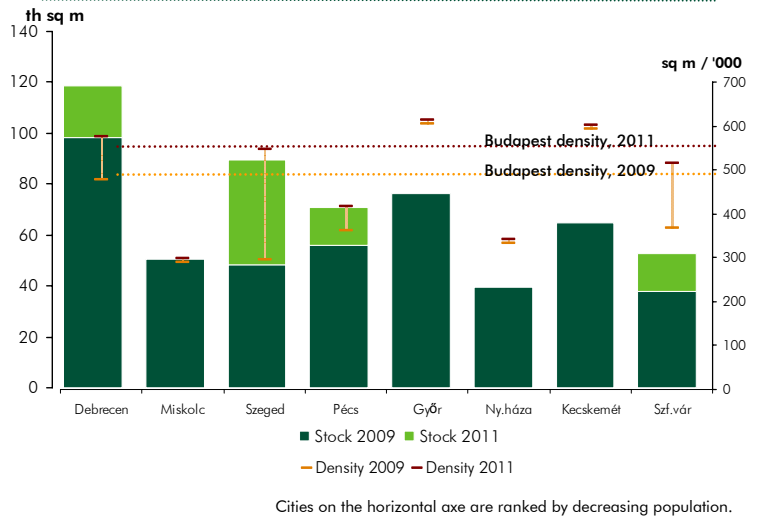
Prime shopping centres operate at near full occupancy and have maintained stable rental levels. However, a downward correction has occurred in some centres of cca. 20% compared to the peak two years ago. The highest SC rental levels in Budapest are at EUR 50-75 per sq m/month.<sup>1</sup>

Non-prime retail schemes and locations have rental levels well below this. Shopping centres in Budapest generally have a higher rental level compared to their peers in secondary cities and this is true for retail park schemes also.

Retailers face challenges due to lower consumer spending and decreasing retail sales but not to the same extent across all businesses. HUF is down some 10-15% compared to its peak against the EUR last year – this change has clearly impacted on retailers; on the other hand, this has triggered significant retail tourism (mostly from Slovakia in H1, which adopted euro as of January). The exchange rate has been less volatile since summer months.

Continuing decreases to retail sales are hitting turnover rental income. Overall retail sales are down by 2.5% y-o-y, and by 6% on 2006 (the last year with positive growth) but not to the same extent – food anchors are performing the best while electronics stores are hit the most (according to latest HCSO statistics from Q2).

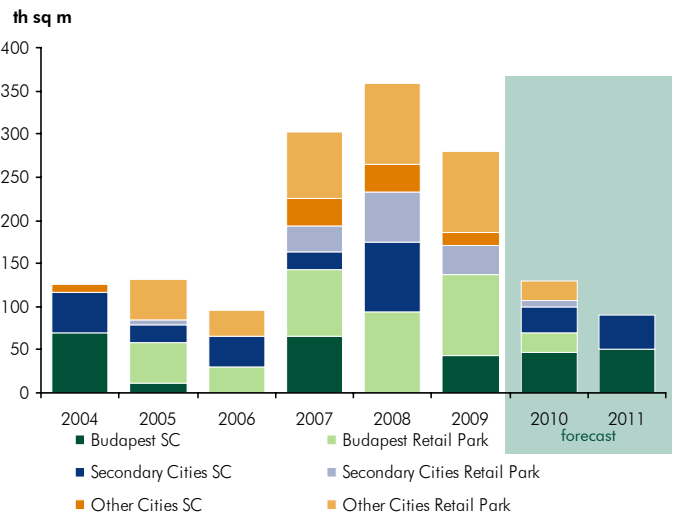
**Retail Stock and Density in Budapest and Secondary Cities**



Cities on the horizontal axe are ranked by decreasing population.

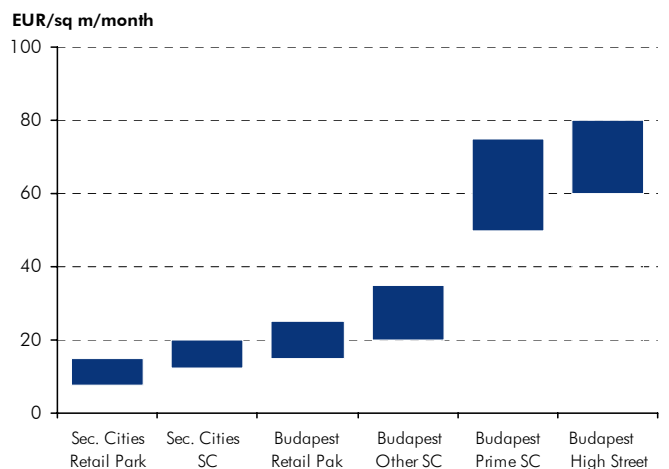
Source: CB Richard Ellis, HCSO

**Retail Completions and Pipeline by Location and Format**



Source: CB Richard Ellis, E-Build

**Rental Levels**



Source: CB Richard Ellis

Rents are quoted for 200 sq m units  
Base rent only, no turnover rent included

<sup>1</sup> Base rent only, no turnover rent included

**BUDAPEST RETAIL MARKET**

• **High Street Market**

Despite the significant slowdown in retailers' activity, prime high street pitches have seen several new openings since the beginning of the year. Armani, Gucci and Coin opened flagship stores already, D&G is expected to open soon.

• **Prime Shopping Centres**

SC stock increased with a new scheme opening in November 2009, bringing the stock to 265,000 sq m. Allee SC opened in Budapest's 11<sup>th</sup> district with all 47,000 sq m fully occupied. Prime shopping centres (which also qualify as large shopping centres) also outperformed other schemes in terms of footfall, turnover and consequently rental levels.

• **Other Shopping Centres**

The stock of other shopping centres (medium and small sized ones which do not qualify as prime schemes) has been flat for four years already at 345,000 sq m. Currently two schemes are under construction; out of which one (Corvin Atrium) is due to open next year with 35,000 sq m.

• **Retail Parks**

This retail format doesn't have a long tradition on the Hungarian market, however the total stock has grown to 240,000 sq m in 2008. Since then there hasn't been any new completion. The largest strip-mall is Market Centrál with 44,000 sq m, but the typical size of a scheme is rather around 15,000 sq m.

**REGIONAL CITIES RETAIL MARKETS**

• **Shopping Centres**

All regional cities (except Kecskemét) saw their first generation SC completed by 2000. Typically these cities have high-street retail space accommodating only local tenants. However, as most of these centres did not keep pace with changing demand patterns, new shopping centres opened bringing in international brands. This wave of new openings is still ongoing, resulting in significantly higher retail provision rates in secondary markets than before. Currently Szeged is going through this significant change with ECE's scheme scheduled for completion in 2011 with some 41,000 sq m.

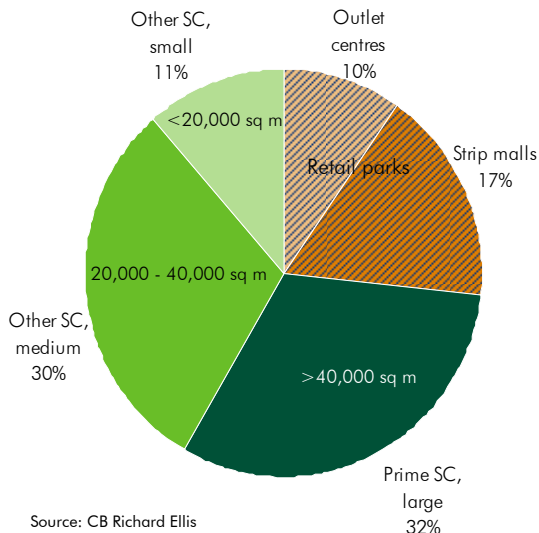
• **Retail Parks**

Retail parks as a new retail format appeared in secondary cities in the last three years, bringing new mid and low-end retailers into the regional city market. Expansion of this sector remains limited: in the pipeline there is only one small extension under construction (8,000 sq m in Székesfehérvár).

**OTHER CITIES RETAIL MARKET**

Other cities (i.e. cities with a population less than 100,000 inhabitants) had a poor retail provision until the middle of this decade as SC developers targeted only major cities. The really rapid expansion in stock in these cities took place when retail parks spread across the country: some 35 schemes opened in the last five years with a total size over 340,000 sq m. This meant on average seven openings (with cca. 10,000 sq m each) every year. This expansion has stopped completely; no new development is currently under construction.

**Budapest Retail Stock by Format**



Source: CB Richard Ellis

**Retail Pipeline Under Construction**

Location	Format	Project name (City)	Size (sq m)
Budapest	SC	Terminal (Budapest 19 <sup>th</sup> )	50,000 <sup>1</sup>
		Corvin Átrium (Budapest 8 <sup>th</sup> )	35,000
		CET (Budapest 9 <sup>th</sup> )	12,500
Regional cities	SC	Árkád (Szeged)	41,000
		Apollo Superior (Debrecen)	20,000 <sup>2</sup>
		Corso (Pécs)	8,800 <sup>3</sup>
	Retail Park	Prémium Center (Székesfehérvár)	8,000 <sup>4</sup>
Other cities	Retail Park	Alpha Park (Keszthely)	14,300
		Family (Center Vác)	8,300 <sup>5</sup>

1 Including 12,500 sq m of DIY store

2 Including potentially office areas

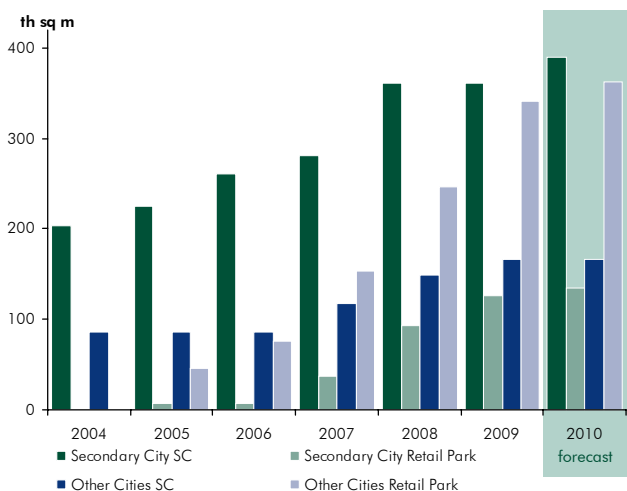
3 Excluding office and hotel areas

4 Extension of the first phase which includes food and DIY anchors

5 Only food anchor building is U/C

Source: CB Richard Ellis, E-Build

**Retail Stock Growth in Secondary and Other Cities**

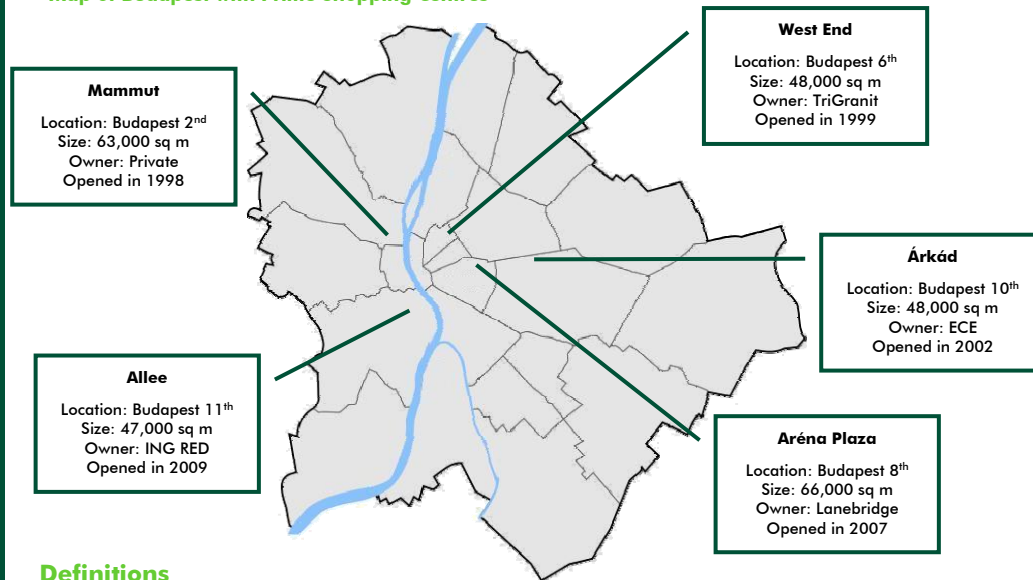


Source: CB Richard Ellis

Map of Hungary with Regional Cities



Map of Budapest with Prime Shopping Centres



**Definitions**

**MODERN RETAIL STOCK** – modern retail space (built since 1995) either in shopping centre (SC) format, or in retail park format with a minimum gross leasable area (GLA) of 5,000 sq m – based on ICSC definitions

**SHOPPING CENTRE (SC)** - a retail property that is planned, built and managed as a single entity, comprising units and common areas with a minimum GLA of 5,000 sq m

**SC SIZE** – based on GLA: small (up to 20,000 sq m), medium (20-40,000 sq m), and large (above 40,000 sq m) – based on ICSC definitions

**PRIME SC** – traditional shopping centre of large size which is located in Budapest, accommodates best-in-class retailers, and can achieve the highest rental level on the market

**RETAIL PARK/STRIP-MALL** - mercantile establishment consisting of a row of various stores, usually opening on a parking lot

**RETAIL PARK/OUTLET CENTER** – establishment in which manufacturers sell their products directly to the public through their own branded stores

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