Budapest City Report

Budapest | Q1 2021

Economic Overview

In 2020, the volume of GDP was 5.0% lower than in the previous year. With the restrictive measures and the interruptions in production chains during the first quarter, the third wave of the coronavirus pandemic is expected to cause a decline in GDP in the first quarter of 2021. GDP is expected to grow by between 4.0-6.0% in 2021, by between 5.0-6.0% in 2022 and by 3.5% in 2023.

Inflation acceleration in April was faster than expected, the annual inflation rate soared to 5.1% from 3.7% in the previous month. As of April 2021, core inflation stood at 3.1% y-o-y - the range of products taken into account in the calculation of core inflation excludes alcoholic beverages and tobacco products.

In the period of January-March the unemployment rate increased by 0.9 pp to 4.5% compared to the corresponding quarter in 2020.

Hungary's average gross wages advanced 9.6% from a year earlier to HUF 414,400 in February 2021, following a downwardly revised 9.2% jump in the previous month.

In Q1 2021, volume of retail sales was 3.2% lower than in the same period a year before. This indicates that consumption of households remained rather subdued in the period, implying a negative GDP contribution for the first quarter. In March the share of online sales in total retail sales accounted for 13%, it grew by 62% y-o-y in volume to a record HUF 140 billion.

In the first quarter of 2021 industrial production was above the previous year's level by 4.0% and it moved closer to the trend seen before the pandemic. The volume of export sales representing 65% of all sales grew by 6.0%, domestic sales accounting for 35% of all sales rose by 3.3% y-o-y.

The vaccination coverage rate of Hungary's population is at the top in the European Union; therefore, restrictive measures started to be lifted gradually from 8 April. In parallel, the recovery in the services sector's performance may also begin, the economy should rebound more spectacularly from Q3 2021, should broad-based vaccination restore economic sentiment. However, the ongoing reopening after the pandemic should bring the next uncertainties to price developments for the next months, as demand-supply constraints probably appear in many fields of the economy.

Investment Market

Budapest | Q1 2021

Investment Market Overview

The first quarter of 2021 saw a weaker investment activity than originally expected. The closing of several transactions, which were launched over the course of 2020 and were expected to close at the beginning of 2021, were either postponed to later this year, or collapsed.

The quarterly transaction volume reached ca. €240 million, which is in line with the volume recorded at the same period of 2020 and is nearly 50% above the Q1 2019 volume (€160 million), indicating that investor appetite is present for Hungarian properties.

Most of the deals were office transactions complemented by a few development sites and re-development opportunities. No hotel, logistics or retail transactions were recorded.

Quarterly Summary

Local purchasers drove most of the trading activity, with their market share peaking at 84%. Although international investors had a very limited activity in this quarter, we expect to see strengthening investment from their side and stabilizing yield levels for the rest of the year.

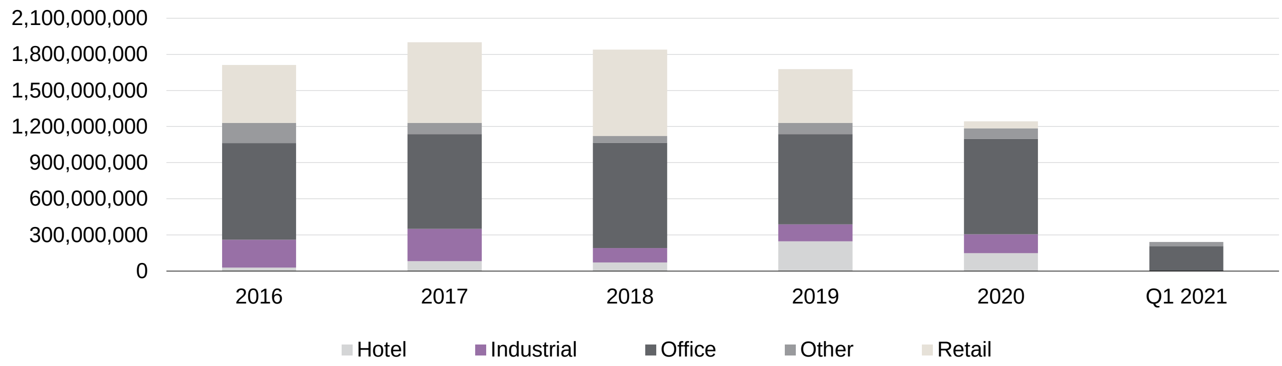
There is no indication of re-pricing in the prime and core segments, however we see re-pricing taking place in the Core+, and the value-add segments. Interest for hotels and retail assets (except for retail warehouse parks and convenience stores) weakened visibly.

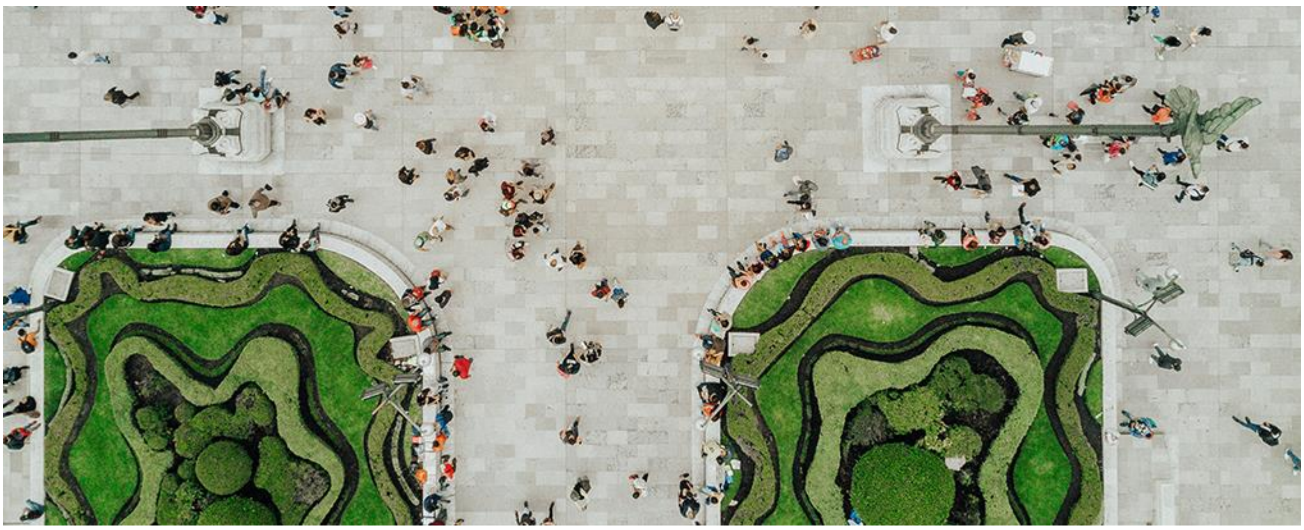
Based on the current pipeline of transactions we foresee 2021 to show a similar investment activity to 2020.

We assess the prime shopping center yield moving out by 25 bps q-o-q to 6.25%, prime office yield being unchanged at 5.25%, and prime logistics yield compressing by 15 bps q-o-q to 6.75%.

5.25%	6.25%	6.75%
Office	Shopping Center	Logistics

Figure 1: Hungary Investment Volumes 2016-Q1 2021



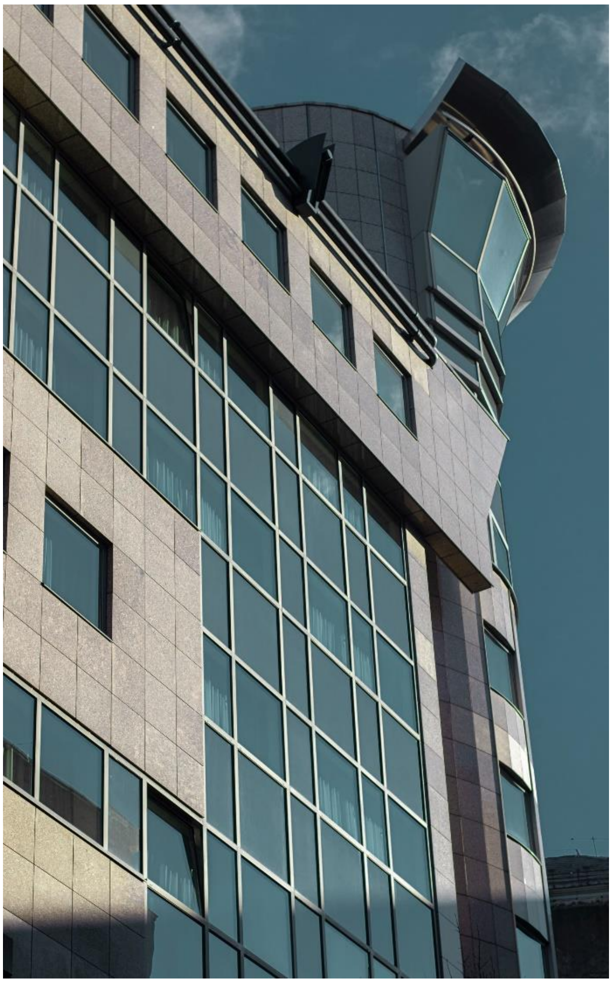


Office Market

Budapest | Q1 2021

Office Market Overview

The Budapest office market became volatile when the pandemic broke out in spring 2020, however, the current level of new developments shows an active developer market – in 2020 completion rate was tripled compared to 2019. Q1 2021 office market statistics have reflected the ongoing economic restrictions triggered by the pamdemic. Total leasing activity has decreased considerably y-o-y and also decreased compared to the last quarter of the previous year (-13%). New leases, however, started to pick up (+21% y-o-y), which is a clear indicator of a slightly improving tenant expectations. Pre-leases dropped significantly (-77% y-o-y); tenants remain cautious in their decision makings.



Vacancy has started slightly to decrease in Q1, it stopped at 8.95%, while net absorption is positive. Based on the headline rents in the currently available units, only minimal rent correction has been witnessed, mainly in category 'B' offices.Tenant incentives are increasing.

Regarding current trends, workplace strategy is going through in-depth research and the importance of flex solutions is growing. Employee experience is at the core of transformation, while the hybrid model is more preferred than home office.

Quarterly Summary

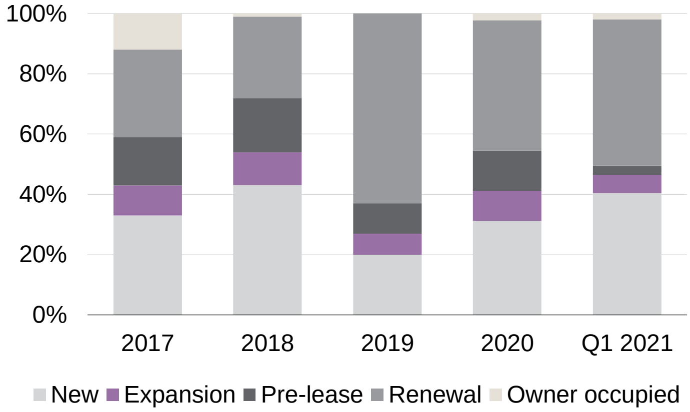
The total modern, existing office stock currently adds up to 3,935,990 m^2.

It consists of 3,296,520 m^2 of ‘A’ and ‘B’ category speculative office space supplemented by 639,470 m^2 of owner-occupied space.

24,700 m^2 of new office space was delivered in the first quarter: Univerzum Office Building, the HQ of Evosoft (22,000 m^2) in South Buda and JA4 Loft Offices (2,700 m^2) in the Non-Central Pest submarket.

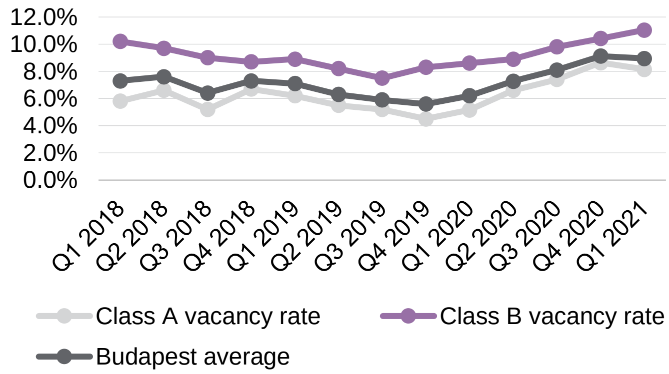
The volume of buildings under construction is 414,770 m^2. Expected completions in 2021 is 130,810 m^2, and more than its double volume is forecasted for 2022 (283,960 m^2).

Figure 1: Take-up structure in Budapest



Source: JLL Research, BRF

Figure 2: Vacancy rate evolution



Source: JLL Research, BRF

74,900 m^2

Demand:
Total demand reached 74,900 m^2, representing a 13% decrease q-oq and a 6% decrease y-o-y. Renewals still made up the largest share of total leasing activity with 48%, followed by new leases in the existing stock with 40%, expansions of existing premises reached 6%, while pre-leases in new developments amounted to 3% and owner occupation was 2%.

8.95%

Vacancy:
In Q1 2021 the office vacancy rate has slightly decreased to 8.95%, representing a 0.15 pp decrease quarter-on-quarter and a 2.75 pp increase year-on-year. In line with the preceding quarters, the most occupied submarket is North Buda with a 4.8% vacancy rate whereas the highest vacancy rate remained in the Periphery (27.5%).
The vacancy rate of Class „A” stock stands at 8.15% whereas it equals 11.04% in the Class „B” stock.

Total Stock

3,935,990 m^2

Vacancy

8.95%

Gross take-up

74,900 m^2

Prime rent

25 €/ m^2

Industrial Market

Budapest | Q1 2021

Industrial Market Overview

The industrial market in Hungary and the wider region is seen as the real estate sector in the most positive position for the post-coronavirus crisis. Due to high demand, continued record low vacancy rates and stable rental levels are expected to stay; despite the many waves of COVID-19, development of speculative projects are ongoing, and the majority of the current pipeline is being developed on a built-to-suit basis.

The options for the purchase of existing buildings are limited, due to the increased demand on the market, developers are actively working on expanding the development potential, therefore, construction activity is also dynamic in the Hungarian regions.

New developers are entering the market which strengthens the competition. HelloParks entered in 2020 and Panattoni announced their Hungarian expansion in 2021 with two projects in the pipeline.

As developer activity increased, rent levels started to stagnate and stabilize, in Q1 2021, prime industrial rent for new buildings in a typical logistics park stood at 4.90 €/m^2/ month.

Total Stock

2,415,550 m^2

Vacancy

2.6%

Gross take-up

81,820 m^2

Prime rent

4,90 €/ m^2

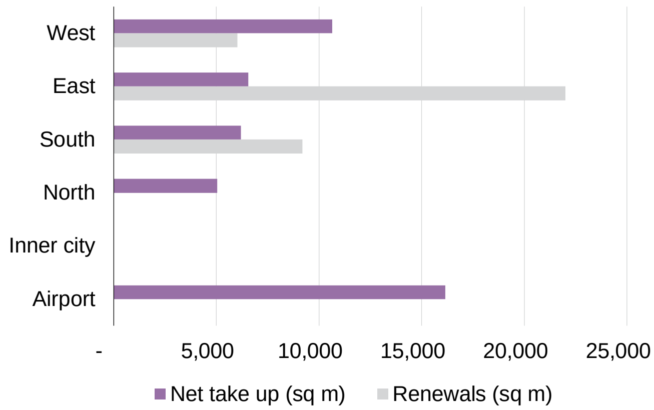
Quarterly Summary

The total modern industrial stock stood at 2,415,550 m^2 in Q1 2021. 40,750 m^2 of new space was completed in the CTPark Budapest East scheme.

Currently there is ca. 252,130 m^2 under construction with an expected handover in 2021, from this volume ca. 50% is already pre-let. Speculative developments are common in the market, deliveries forecasted are made especially by CTP and a Hungarian developer, Futureal.

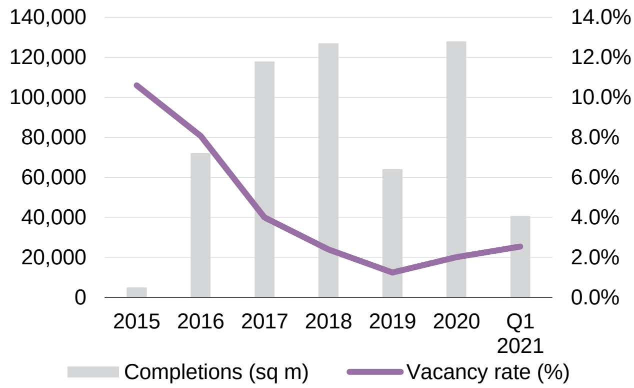
The supply on the industrial land market melted down during the past years in the most attractive submarkets (West and South-Budapest and Airport) therefore developers started focusing to less exploited submarkets like Budapest North and East.

Figure 1: Take-up structure in Budapest



Source: JLL Research, BRF

Figure 2: Completions and vacancy rate evolution 2015-Q1 2021



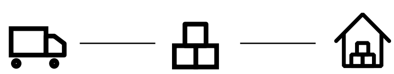
Source: JLL Research, BRF

81,820 m^2

Demand:

The total demand amounted to 81,820 m^2, indicating some 3% increase y-o-y. Net take up added up to 44,590 m^2 which marks a significant threefold increase over Q1 2020 volumes. Pre-leases dominated the demand (45%), new relocation leases stood for 10%, whilst the quarter saw no expansion transactions. Lease renewals accounted for a share of 45% from the quarterly demand.

2.6% Industrial Vacancy Rate ↑ 0.5pp Q-o-Q ↓ 0.2pp Y-o-Y



2.6%

Vacancy:

The vacancy rate stands at 2.6% showing a 0.5 pp increase q-o-q, and a 0.2 pp decrease y-o-y. At the end of the first quarter, a total of 61,620 m^2 logistics area stood vacant, and there are only two existing schemes which have availability of more than 5,000 m^2.

Retail market

Budapest | Q1 2021

Weaker retail performance in Q1

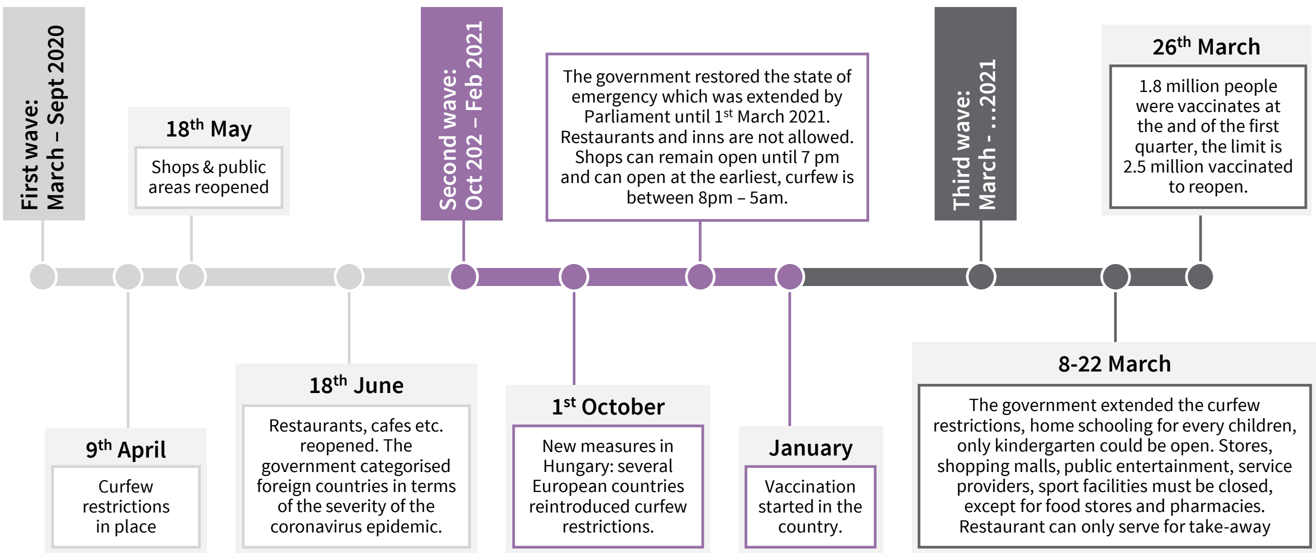
Retail set for a strong recovery in the second half of 2021

The partial lockdown declared last November was still in effect in the first quarter of 2021 and the third wave resulted in further nationwide restrictions. The second lockdown have come into force for the period of 8-22 March and applied to stores in shopping centres, except those selling essential items. The restrictions remained in place until 8 April, thus, the first three months of the year saw a decline in the overall retail performance. Consumer confidence improves from April as the re-opening of economies loom.

3.2%

Retail sales:
There was a significant drop in non-residential consumption, in March the volume of sales in retail shops decreased by 3.2% y-o-y due to the impact of new restrictions affecting retail trade and the base effect of the epidemic that started last year. In March specialized and non-specialized food shops accounted for 51% of all retail sales.

Despite the crisis the grocery sector rose by 3% last year as it drew customers' essential and sustenance needs away from the hospitality sector.



Quarterly Summary

↓ 10-20%

Rents:

By March 2021 the retail market has witnessed a slight decrease in prime rents (ca. -10-20%) in shopping centres and high street assets as well, standing at 100-110 €/m²/month. The interest into downtown locations decreased because of the poor tourism in the past months.

However, opportunistic growth is possible by pushing towards more flexible deal structure, including step-rents. Increasing availability and drops in prime rents can also be an opportunity for retailers to enter the market or relocate to prime locations in 2021.

↓ 20-30%

Footfall:

Footfall in shopping centres in 2020 was on average 20-30% lower than in the previous year. Shopping malls started the spring season 2021 with a huge decline in turnover, however, at reopening footfall reached 70% right away triggered by marketing activities. Regarding high-street footfall, it has massively decreased due to the fact that it was mainly driven by tourism. Based on market feedback, it was about a 70% drop in 2020.

↑ 45%

E-commerce:

Covid-19 clousures have driven consumers online. In 2020, e-commerce jumped three years ahead, 45% compared to the previous year, it has thus far surpassed the annual growth of 16-18% so far. In March 2021 the share of online sales in total retail sales accounted for 13%, it grew by 62% in volume to a record HUF 140 billion. The online market's best performing segment is Fashion.

↓ 40-60%

Fashion retailers:

During November-December 2020, fashion retailers reported a drop in revenue of around 40-60%. Last year, three well-known clothing chains - Vagabond, Promod and Camaieu - withdrew from domestic shopping malls, which was followed by Cosmos City in early 2021. Overrall, nationwide solely 90 stores' tenants handed back their retail space in shopping centers since the beginning of the crisis. There wasn't any new brand entering the market in the past months.

Retail conditions & Outlook:

- Drive through/ click&collect service became widespread and so-called 'dark stores' are emerging (stores set up specifically for collection services, where customers don't even enter).
- Healthy retailer demand for quality space is pivoting towards experience led shopping destinations and accessible convenience orientated retail places and prime destinations.
- Retail sales are set for a rebound, driven by pent-up demand, 'social consumption' and increased savings. Physical non-food sales, which largely flows into high street, shopping center and retail park locations, is expected to see the strongest rebound until 2025.
- As new working and living habits continue post pandemic, the short-term boost in grocery sales may become permanent.
- Consolidation and optimization of retail chains are happening: major retailers are in the process of renegotiations, they have accelerated right-sizing of store portfolios and upgrades of remaining stores.

Retail stock 2021 in Hungary:
(all modern retail formats included)

2 milion m² GLA	781,260 m² GLA	55,000 m² GLA
Total retail stock in Hungary	Total shopping center stock in Budapest	Under Construction Etele Plaza Q3 2021 handover

Source: JLL Research

JLL office

Budapest
Szabadásg tér 14
1054
Hungary
+36 1 489 0202

Anikó Nagy
Market Researcher
Budapest
+36 1 489 0202
email: aniko.nagy@eu.jll.com

Dorottya Peyer
Market Researcher
Budapest
+36 1 489 0202
email: dorottya.peyer@eu.jll.com

Ferenc Furulyás
Managing Director
Budapest
+36 1 489 0202
email: ferenc.furulyas@eu.jll.com

jll.com