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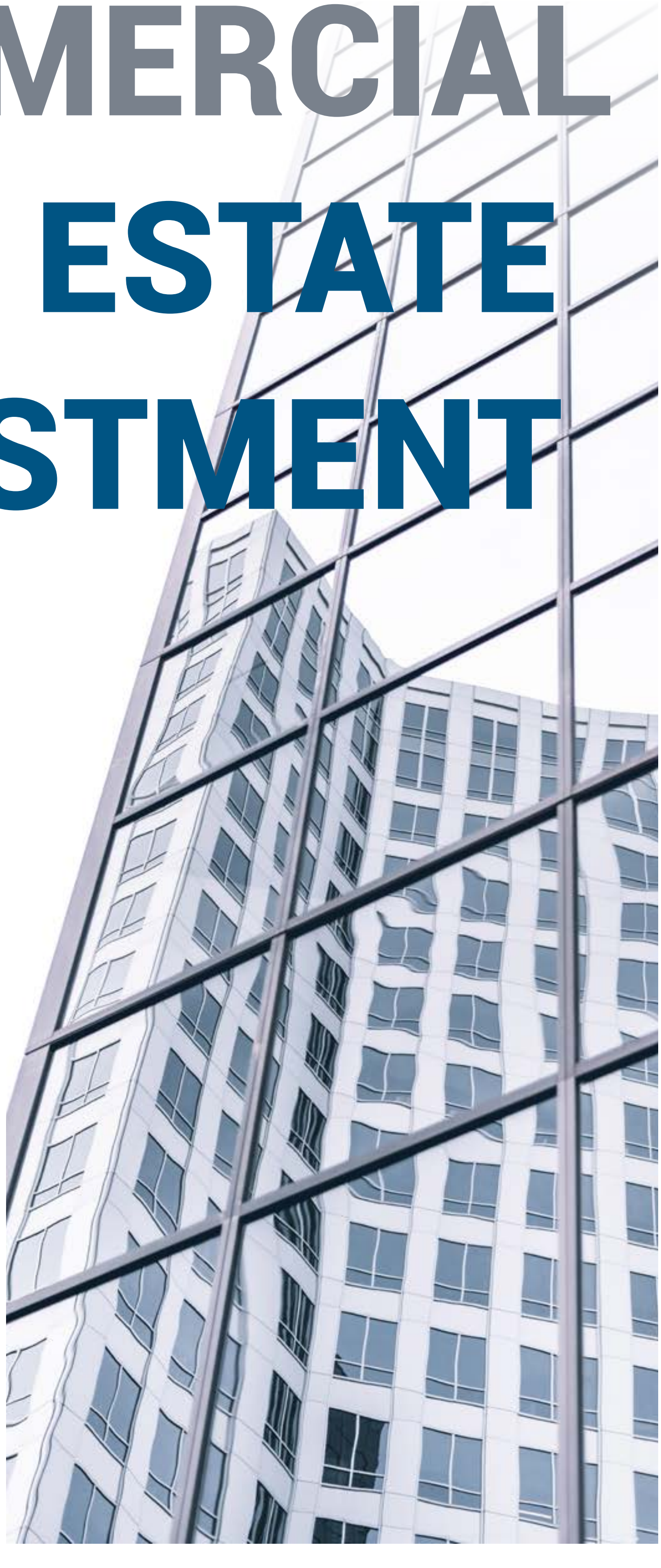
COMMERCIAL REAL ESTATE INVESTMENT



2021 **Market Report**

Summary of 2021

Overall, in 2021 the market showed dynamic annual growth, even with only a few exceptionally large transactions or portfolio sales. In some sectors, effects of the pandemic were barely perceptible; the transaction volume of the office market in 2021 was EUR 1.1 billion, which is 21% above the pre-pandemic record, EUR 905 million in 2018. The top premium assets were re-priced, but for several reasons, it is questionable whether there will be further price increase and yield decline. Although there is still a large amount of investor resource to be spent, with the current interest rates financing is becoming more expensive. There are also relatively few both high quality and well-located core products on the market at the moment, and not many is expected to be delivered in the near future. In addition, tenant activity is still in recovery phase, which is a challenging obstacle for forward transactions. In the industrial and logistics market, the volume of transactions in 2021 was not yet able to reflect the actual demand, due to the supply-shortage. This is expected to change in 2022 as many properties in the current pipeline are being developed with the intention of sales. Within the retail market, the big box and FMCG sectors are performing well, however shopping malls are facing more challenges - reduced turnover and higher euro exchange rate puts tenants under a lot of pressure. Investor activity in the hotel sector has halved year-on-year, the market is characterised by postponed developments, and the pace of tourism recovery is questionable due to a number of negative externalities (pandemic, travel restrictions, low domestic demand, labour shortages, rising costs). For now, both investors and sellers are on standby. Overall, although a significant price increase is not, further growth of market turnover is expected for 2022, especially if larger portfolio transactions will occur as well.

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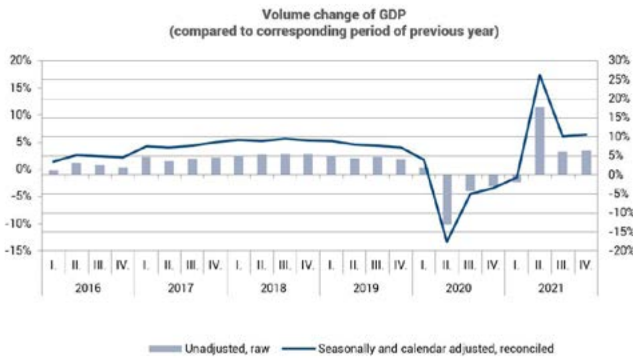
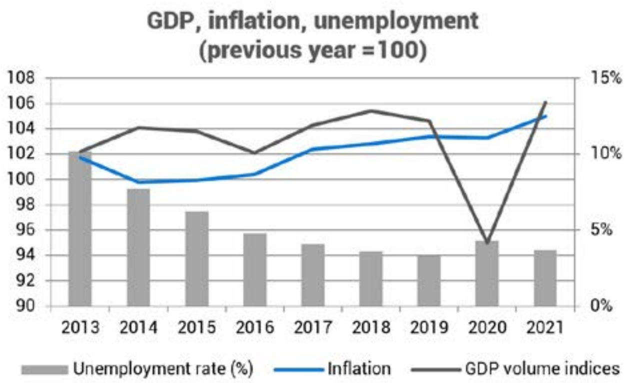


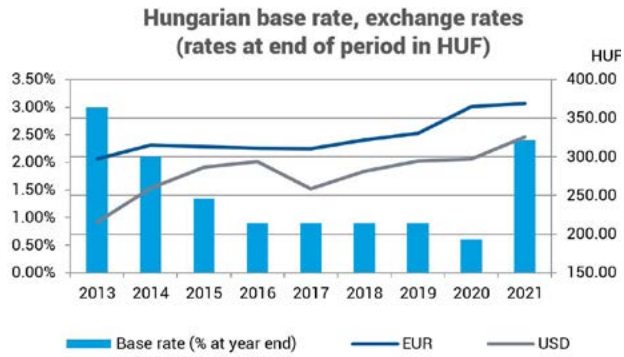
Economic summary

In the first half of 2021, restrictions due to the pandemic were still strongly affecting the Hungarian economy, but the recovery plan proved to be successful throughout the year. The performance of the Hungarian economy increased by 7.1% in Q1-Q3 2021, the total annual growth was estimated at 6.4%.



Between January and November, industrial output grew by 10%, while construction industry grew at a higher rate (+11%). Recovery began in the accommodation and restaurant segment (+4%) and the sector of cultural and leisure services (+7%). The info-communication sector further expanded (+12%) in the first three quarters.

Inflation in 2021 was 5.01%. Construction costs increased by approximately 13% compared to 2020, and the rate of price-growth was significantly higher than in 2020 (8%).

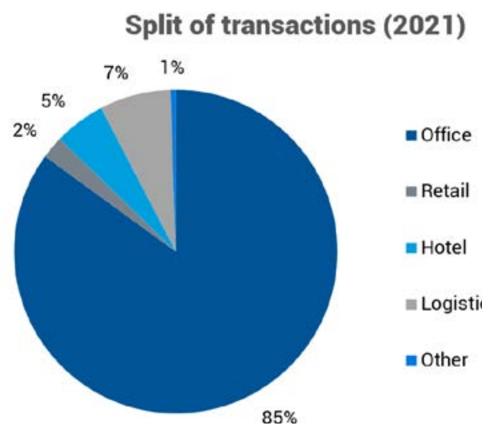


In Q3 2021, unemployment rate of 3.7% was 0.6 percentage points lower than in the previous year. The employment rate of 15–64-year-olds was 73.6%, showing an increase of 1.2 percentage points. Between January and November 2021, wage growth was 5% (6% a year earlier and 11% in 2019). In order to contain inflation, the National Bank of Hungary began to raise interest rates in seven steps, the base interest rate resulted in 2.4% by the end of 2021 (0.6% in 2020). Hungarian forint continued to weaken against euro in 2021 (1 euro at the end of the year was 369 forints).

Investment activity

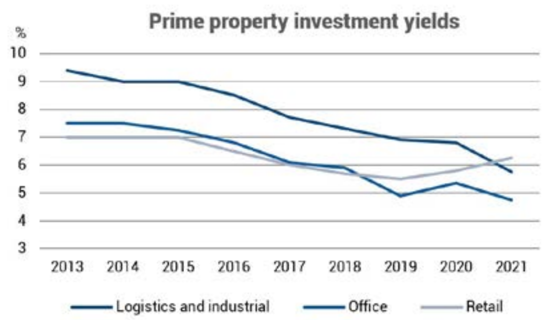
In line with our expectations in 2020, the volume of real estate investments in 2021 expanded. The transaction deals closed last year were 22% higher than in 2020, representing approx. EUR 1.3 billion. The average transaction size was around EUR 28.5 million. Deals over EUR 100 million were multi-building transactions, the vendor was WING in both cases. Infopark's building B, C, D and I were purchased for EUR 113 million by SkyGreen Buildings (managed by Equilor Real Estate Fund). The Evosoft and Ericson headquarters were jointly purchased by GTC for EUR 160 million.

Office properties are still the most sought-after asset-type, in 2021 it accounted for 85% of transactions, representing an approx. EUR 1.1 billion volume, which is 74% higher than the previous year's volume. Decline in investor activity is most significant in the retail segment (-70% year-on-year), but hotel transactions (-50%) and industrial real estate deals (-36%) also declined compared to 2020. However, in terms of I&L, it is important to note that the main reason for low transaction volume is not weak demand but a shortage of supply. Currently, the demand for modern warehouse space is constantly growing in Europe and Hungary, but 75-80% of the market supply belongs to developers who do not plan to sell their properties. Based on the current I&L pipeline for 2022, higher exit-developer activity and therefore investment market growth is expected on this sub-market. Domestic investors dominated the market in 2021, with around 50% share.



Yields

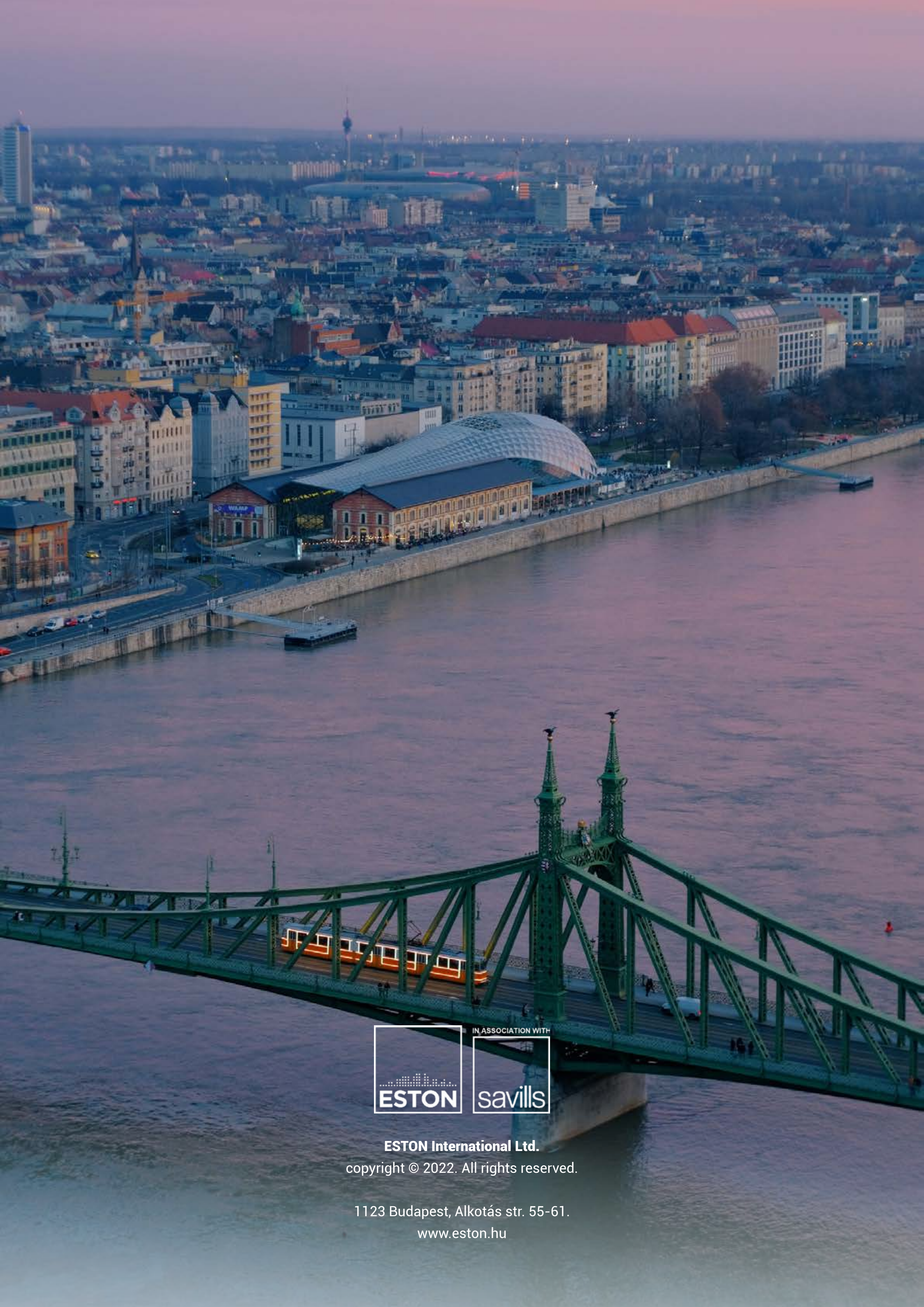
With the rising inflation and interest rates, the decline of yields in the office investment market has resumed. Nevertheless, investor activity did not slow down, on the contrary, which put further pressure on yield levels. At the current prime office market yield of 4.75%, Szervita Square office building was sold for EUR 78 million.



In other sectors, it is difficult to pin down benchmark yields due to the low number of transactions; tthe average return on CORE industrial real estate is slightly below 6% and retail properties change owners at an approximate yield of 6.25%.

Forecast

Due to strong liquidity, the market recovery is expected to be sustained for 2022. The significant supply-growth of industrial and logistics market in the coming year will serve the increased demand, the biggest growth is expected in this sub-market. In terms of retail and hotel segments, the expiration of the loan moratorium, which is currently available until the middle of the year, could influence the volume of transactions in the second half of 2022. If the recovery of international tourism does not accelerate, hotel owners in the Budapest market might be forced to exit. In 2022, based on ongoing transactions, growth in the real estate investment market is expected to be 10-15%.



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