



INDUSTRIAL & LOGISTICS MARKET

H1 2022

Market Report Budapest



Foreword

Significantly strong developer activity continued after the record-breaking completion volume of last year. The effects of the continuous handover wave eventually began to appear in the sudden shift of vacancy rate, increasing it above 2017 levels. At the same time total leasing activity keeps representing a healthy market's demand when comparing it to H1 volumes of the past 5 years. Unlike the recent office market trends, pre-lease and BTS agreements are still popular in the warehousing real estate market, 5 out of the 8 new developments of H1 2022 were fully let prior to completion. Stable demand is accompanied with increasing rents; while until now above EUR 5/sqm/month nominal fees were experienced mainly only in the western agglomeration, recently several properties of the rest of the market also began to exceed that rent level. Next to the generally positive performance and still promising outlook of the market, the lasting effects of the recent turn of events and their economic consequences are yet to be seen. Continuous and extreme rise of construction and financing costs are expected to put pressure on developers and investors, and tenants are already facing the challenges of the energy crisis and inflation. On the other hand, e-commerce could rise further due to lower costs as opposed to physical retailing, meaning its supply chain, warehousing and logistics properties will continue to be popular assets. Development and maintenance of new properties according to the recently emerged sustainability standards can be a mitigating solution for optimising the sudden increase of facility costs.



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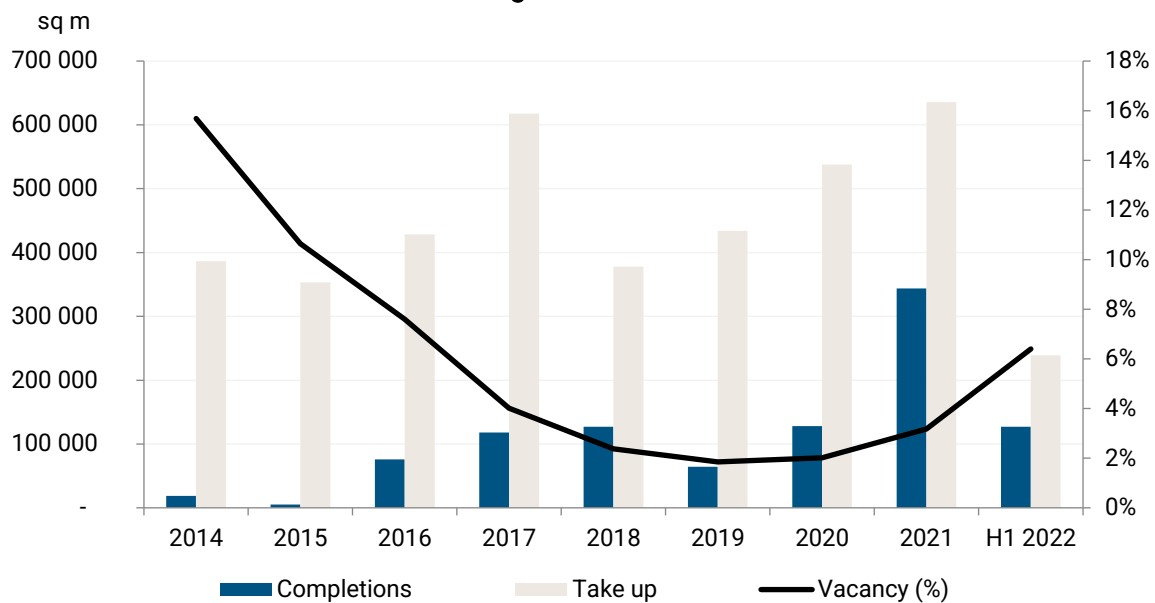
Completions

In the first half of 2022 there was a total of 126,848 sq m new warehousing area handed over in the Greater Budapest market, representing a 20% decrease in terms of completions compared to the same period of 2021. The 8 new buildings however still accounted for growing the total stock with 5% in only 6 months. 5 of the handed over properties were full with pre-lease tenants before completion. The largest scheme was the 45,349 sq m Hello Parks Fót, and the most active region in terms of completions was the southern agglomeration of Budapest (5 buildings, 52,030 sq m).

Main logistics property market indicators (H1 2022)

Stock	2,927,901 sq m
<i>Logistics parks</i>	2,564,640 sq m
<i>City logistics</i>	363,261 sq m
Completions	126,848 sq m
Take up	238,788 sq m
Vacancy	6.42%
Net absorption	25,758 sq m
Average rents	EUR 4.75-5.25/sq m/month
Prime yield	5.60%

Industrial & Logistics Market Indicators



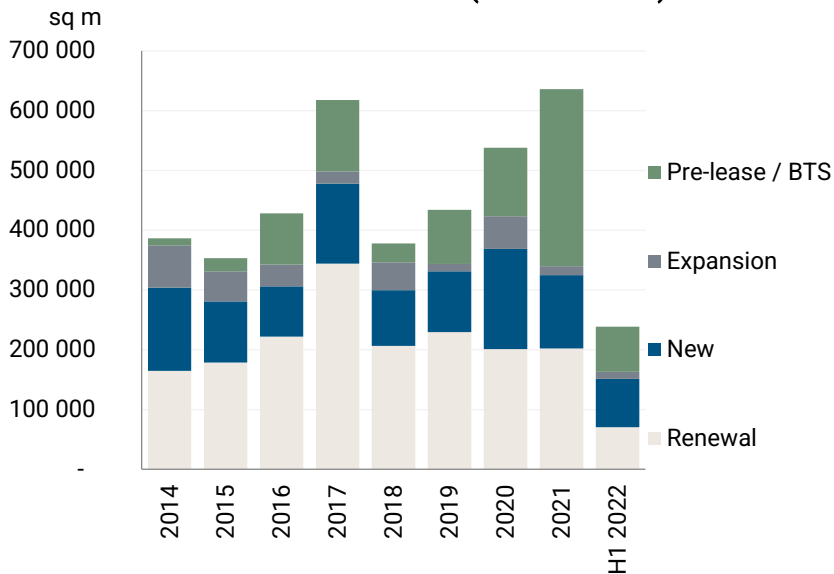
Development pipeline

In the second half of the year almost 300,000 sq m additional warehousing space is expected to be handed over, in which case 2022 would be yet another year of record-breaking stock expansion of the industrial and logistics property market after last year's 343,916 sq m completion volume. Nearly half of the new rental area volume is expected to be delivered in the western region of the market (Biatorbágy, Páty). By the end of H1 2022, around 40% of the below developments were pre-leased.

Planned pipeline for H2 2022			
Project	Building	Location	Size (sq m)
Airport City Logsitic Park	I.	Vecsés	5,920
CTPark Vecsés	VCS3	Vecsés	32,685
CTPark	ECS1, ECS4	Ecser	41,800
CTPark Budapest West	BIA 4, 9	Biatorbágy	45,936
LogiCube Park	A, B	Biatorbágy	7,460
Hello Parks Páty	Phase I.	Páty	55,000
INPARK Páty	BTS building	Páty	32,112
IPD Késmárk		XV. Budapest	5,500
LogStar Park Budapest M0-M3	A, B	XV. Budapest	14,428
GLP Sziget Logistics Centre	Phase III-A	Szigetszentmiklós	21,500
ProLogis Park Budapest – Sziget II.	DC1B	Szigetszentmiklós	13,788
East Gate PRO	A1, B1	Fót	20,760
Total			269,889



Share of Transactions (2014-H1 2022)



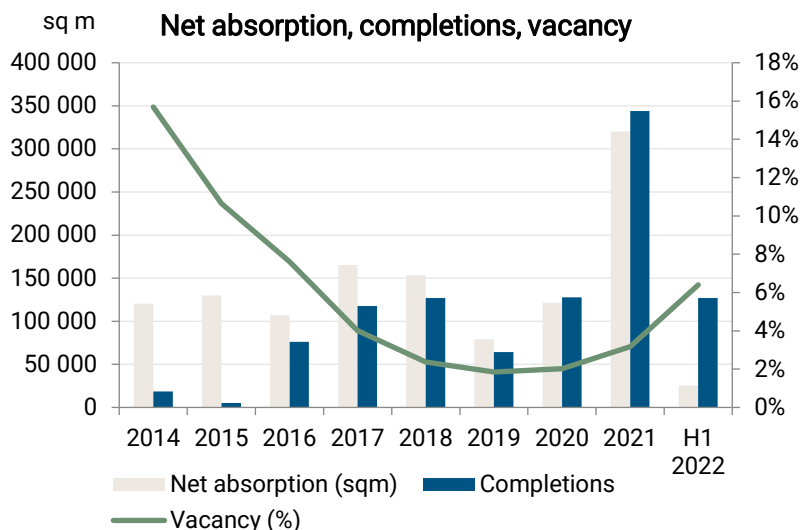
Demand

The total leasing activity showed a slight decrease compared to H1 2021, the 36 lease agreements of the first six months of 2022 equalled with 238,788 sq m total take-up, which is 6% less than in the same period of last year. Net take-up amounted for 70% of the total leasing activity, which is the highest net take-up share since 2010. Most of the leases were generated by new agreements, pre-lease transactions realised the second biggest share. The largest deal was a 22,184 sq m pre-lease agreement in Prologis Park Budapest Gyál by Syncreon, and the biggest new transaction was 18,617 sq m in ProLogis Park Budapest Sziget by Lidl. The average size of the 36 deals of H1 2022 is 6,633 sq m.

Vacancy, net absorption

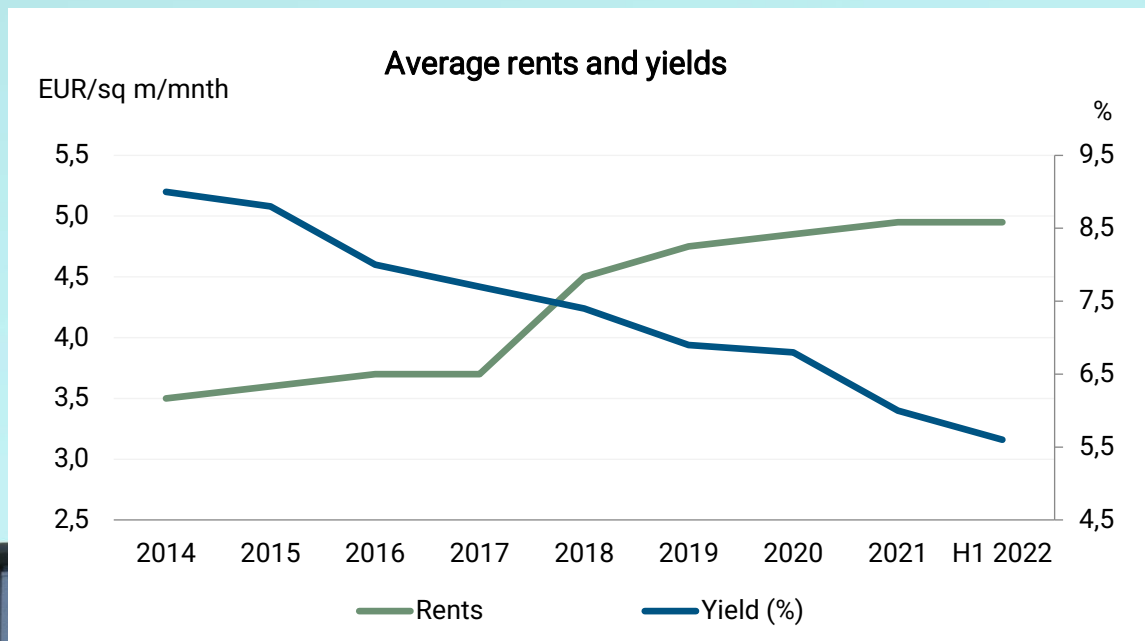
The continuous handovers and extreme rise of development activity in the past years began to show in the rising vacancy rate. By the end of June 2022 6.4% of the total stock was available, which is a 245 bps increase compared to H1 2021 and 324 bps increase compared to the end of last year. Between 2021 and H1 2022 the area of vacant spaces increased from 78,139 sq m to 187,851 sq m (+109,712 sq m). Change in the volume of occupied area was positive, however very moderate. During the first 6 months of 2022 net absorption was 25,884 sq m which is 88,791 sq m less than in H1 2021 and also below average compared to the historical H1 volumes.

Net absorption, completions, vacancy



Rents, yields

The average monthly rents are in the range of EUR 4.75-5.25/sq m/month. Yield rates declined further compared to the previous year, prime industrial and logistics properties were sold with an average yield of slightly below 5.60% at the end of H1 2022. However, there are still limited number of large transactions recorded on the market.



Forecast

Further supply expansion is clearly foreseen for the next two years, however development activity might decline in the mid-term due to increased construction, financing costs and economic slow-down. Demand is expected to remain strong supported by the warehousing needs of resilient segments such as FMCG and e-commerce, and more conscious sufficient stocking after the recently experienced supply chain issues. Although change in consumer confidence might influence these sectors too. Rising transportation costs bring competitive advantage to well-located properties with good infrastructure connections, while new developments with green solutions can be more attractive due to optimised utility and maintenance costs. Prime rent is expected to further increase, and yield shift is not foreseen in 2022.