



COMMERCIAL REAL ESTATE INVESTMENT

HUNGARY H1 2022



IN ASSOCIATION WITH



Foreword

Unforeseen and highly impactful external factors have influenced the first half of 2022, which appears when looking back at the expectations towards the commercial real estate market activity at the end of last year. A number of large-volume transactions emerged by the end of 2021 and were to go through in 2022, however with the arrival of the recent geopolitical conflict, the market had to face new challenges. Risk assessment became top priority and resource allocation within Europe reorganised at some level. During the pandemic, the resilience of FMCG, hence the big box retail sector crystallised. A retail portfolio transaction – supported by ESTON/Savills on the buy side – covers nearly 40% of the total volume of H1, which is partly due to the outstanding volume of this multi-asset deal, and partly because of the relatively moderate activity in the rest of the sectors. The accelerated growth of financing costs has brought a sense of wait-and-see investor behaviour, however drastic pricing or yield shift cannot yet be seen at the prime and core products. A wider dispersion of return can be expected within asset types and sectors in the coming period. The rapidly weakening local currency strongly affects tenant, service charge and utility costs, which is to affect the retail industry (shopping malls, high streets) the most sensitively. Supply in the industrial and logistics market keeps expanding next to a strong demand and the investment volume of the sector further reflects its popularity, while yields continue to decrease. The office segment can still realise a below 5% prime yield, pricing is expected to remain strong in the short term for high quality assets. High liquidity is still present, however uncertainty is expected to stay for the coming period. The actuality of re-financing with the current costs could cause a shift in vendor-purchaser power-balance and result in softer pricing and yield shift eventually.



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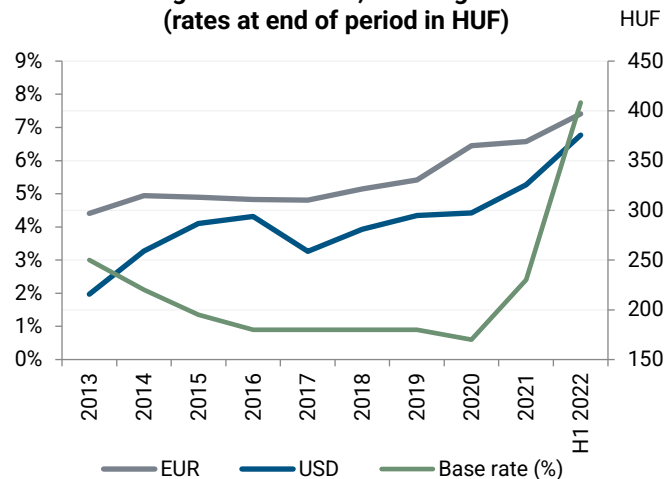


Economic summary

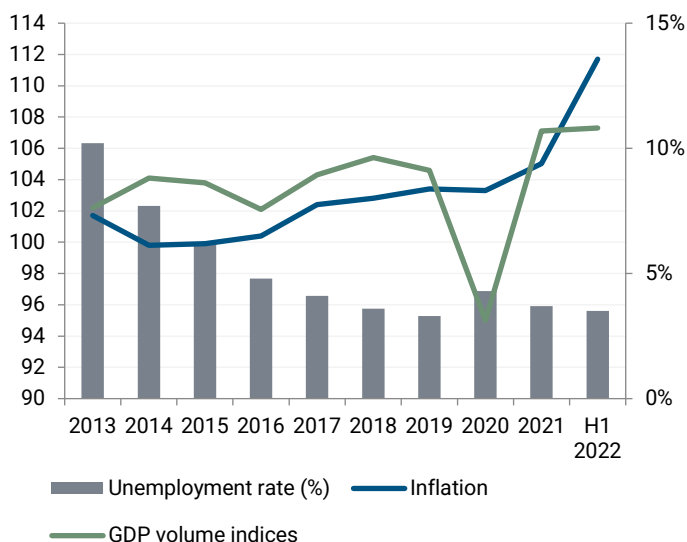
Hungary's gross domestic product expanded by 7.3% in the first half of 2022. GDP growth is expected to decrease from 7.1% in 2021 to 5.2% in 2022 and 2.1% in 2023. In June 2022 inflation stood at 11.7%, which is 607 bps higher than at the end of 2021. Industrial production increased by 5.1% in H1 2022. Construction costs further increased by approximately 15-20% compared to 2021. Material shortages due to trade restrictions with Russia and rising energy costs are driving up production prices for key construction materials. The price of raw materials such as zinc hit a 16-year high in April. The increase in the price of coal alone increased the price of steel produced by the basic oxygen process by 40 percent. In addition, rising energy costs have contributed to a 36% and 15% increase in the prices of other energy-intensive key materials such as cement and bricks. In H1 2022, unemployment rate of 3.5% was 20 bps lower than in the end of the previous year. The employment rate of 15–64-year-olds was 74.9%, showing an increase of 130 bps. The base rate has been increasing rapidly since 2020, at the end of H1 2022 it was 7.75% which is 535 bps higher than at the end of last year. Hungarian forint continued to weaken against euro during the first 6 months of 2022, the exchange rate of 1 euro was 397 forints in June 2022, which is 8% higher than at the end of 2021.



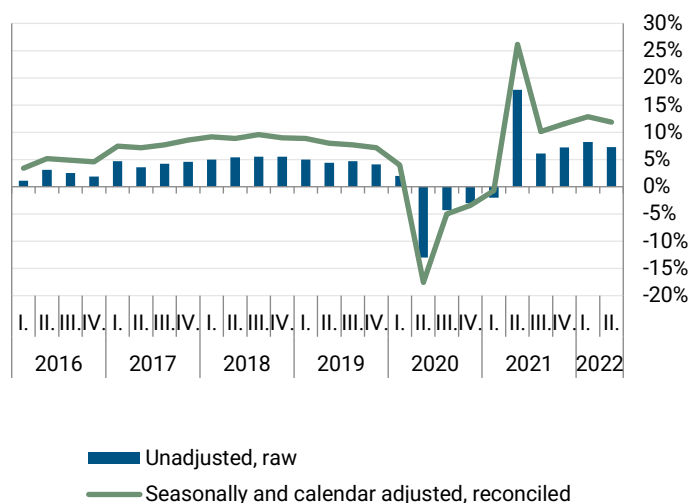
Hungarian base rate, exchange rates
(rates at end of period in HUF)



GDP, inflation, unemployment
(previous year =100)



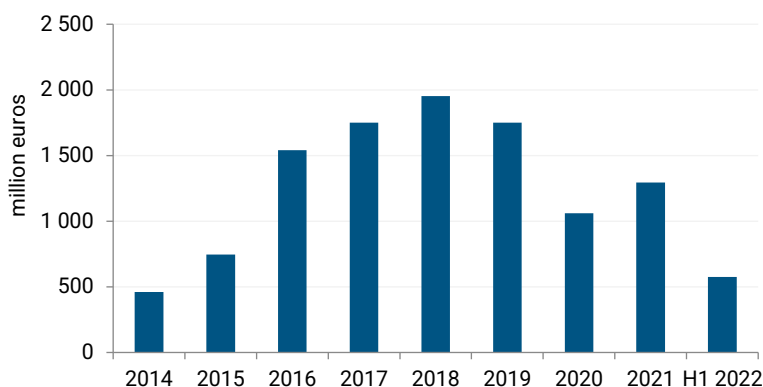
Volume change of GDP
(compared to corresponding period of previous year)



Investment activity

The total volume of investment activity in H1 2022 was 13% lower than in the same period of 2021, representing approximately EUR 575.4 million. The average transaction size was around EUR 30.2 million. The most significant deal of the half-year was the sale of the Tesco portfolio, consisting of 14 retail properties located in Hungary. The EUR 200+ million transaction was supported by ESTON and Savills on the buyer (Adventum) side. The largest office transaction was the sale of Akadémia Bank Center, sold by DWS to Europa Capital for EUR 48.5 million, and Freedom Palace was sold on the lowest (4.75%) yield in H1 2022 to Groupama by LSGI. The transaction of Airport City logistic park was closed in the first quarter of 2022, representing a EUR 59 million deal, the asset was acquired by WING from CPI Group.

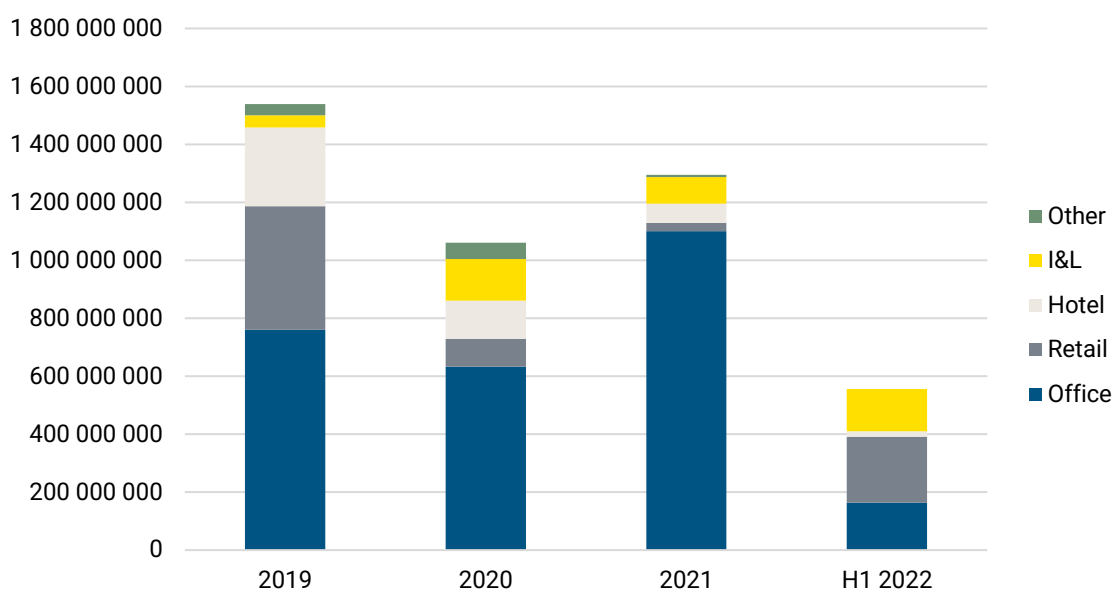
Commercial Real Estate Investment Volume



Sectorial share

While the largest share was generated by the retail sector, an outstanding growth of the six-month volume of the industrial and logistics sector could be observed in H1 2022. In H1 2021 only 5% of all transactions were generated by I&L property sales, which in this year increased to 25%. In the volume of transactions this translates to 4.5 times the previous year's H1 value, and a 58% increase compared to the total 2021 I&L volume. Share of office deals (28%) shows a strong fall-back which in volumes equals to a 71% decrease compared to H1 2021.

Sectoral Share of Investment Volume, Hungary

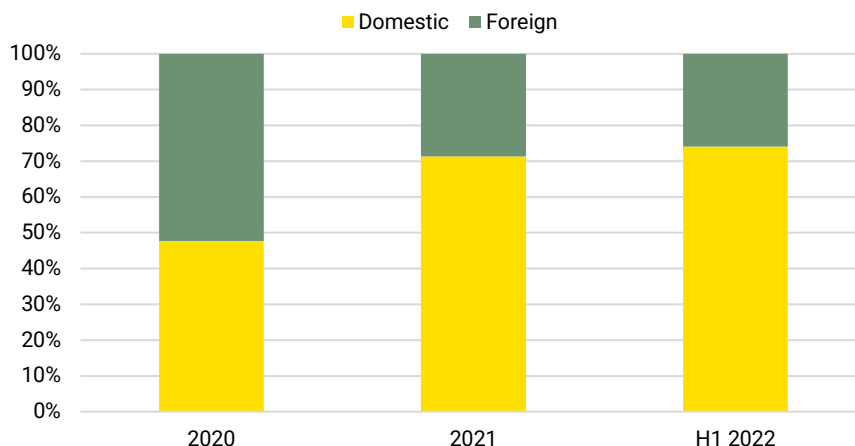


Domestic investors are generally active participants of the market. In the past one and a half years, they have been strongly dominating it, generating more than 70% of the total investment volume of the country.

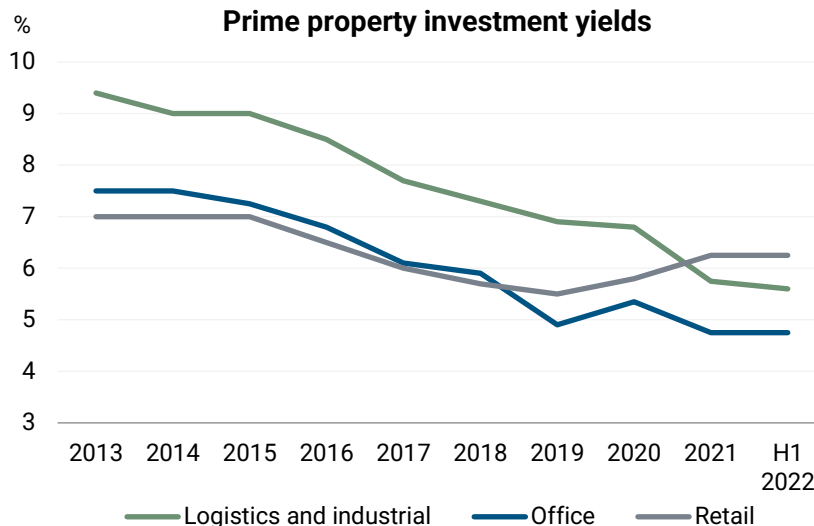
Yields

Prime office yield remained below 5%, while Core and Core+ products realise yields between 5.0% and 7.0%. At the current prime office market yield of 4.75%, Freedom Palace office building was sold for EUR 33 million. Pricing strengthened and the average return on industrial real estate decreased further below 6%. Retail properties change owners at an approximate yield of 6.25%.

Share of Domestic and Foreign Investors



Prime property investment yields



Forecast

Inflation is likely to affect consumer behaviour, partially limiting demand to the most necessary products, while rapidly increasing tenant costs are also putting pressure on the retail sector (mainly shopping malls). Shift in consumer habits is likely to affect demand in tourism as well, and rising utility costs also challenge the hotel market. Supermarkets in this case however can be expected to remain more resilient to the current market conditions. E-commerce could rise further due to lower cost, meaning its supply chain, warehousing and logistics properties continue to be popular assets, at the same time, supply is still limited. Change in yields in this segment will also be a subject to financing costs. Despite it being a sought-after asset type at the moment, claim for softer pricing could raise from the buyers' side. In the short term, prime office yield could remain at current level, and slight increase is expected in the mid-term. Due to the extreme construction and material cost increase paired with high financing costs, existing (older) buildings will be able to offer more attractive yields, however new developments can be more energy efficient, and attract bigger and more stable multinational tenants.