IN ASSOCIATION WITH

CAPITAL MARKETS

H1 2023 Hungary

Foreword

Slowdown in real estate investment is currently present worldwide, global investment volumes were more than 55% down on last year, with all sectors and all geographies seeing decrease in activity. The phenomenon is spread evenly across Europe too, with most markets reporting decreases from the European average. In Hungary, the transaction volume of the first half of 2023 is the lowest recorded in the past 5 years, with only a few deals.

Due to the market conditions, demand for repricing is apparent from the customers' side, which is often in conflict with the vendors' objective. Tenders currently tend to attract significantly less offers, mainly coming from strongly opportunistic investors. Long-term holders - if willing to consider at all - are generally more selective these days.

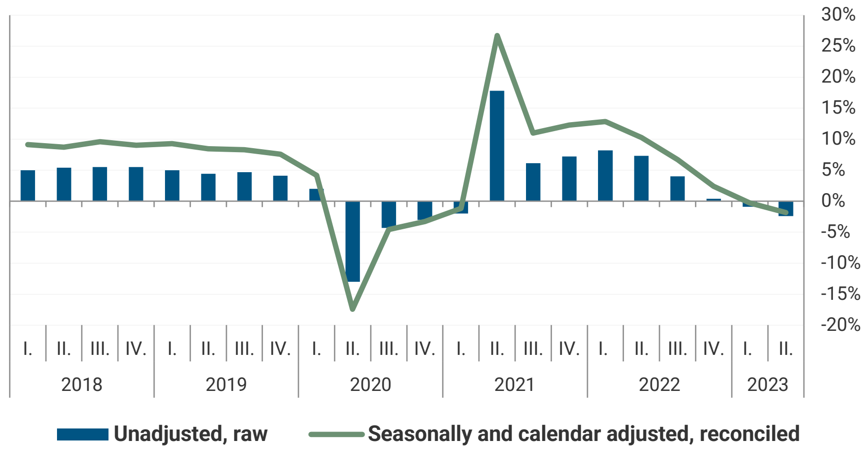
Yield-shift clearly began in Hungary, however with a bit of a delay compared to the regional countries, where repricing became evident as early as the third quarter of 2022. In our experience, the domestic market has not yet gone through the complete transformation, and further increase is certainly expected, especially that financing costs still keep increasing.

Attila Balogh
Head of Capital Markets
ESTON International

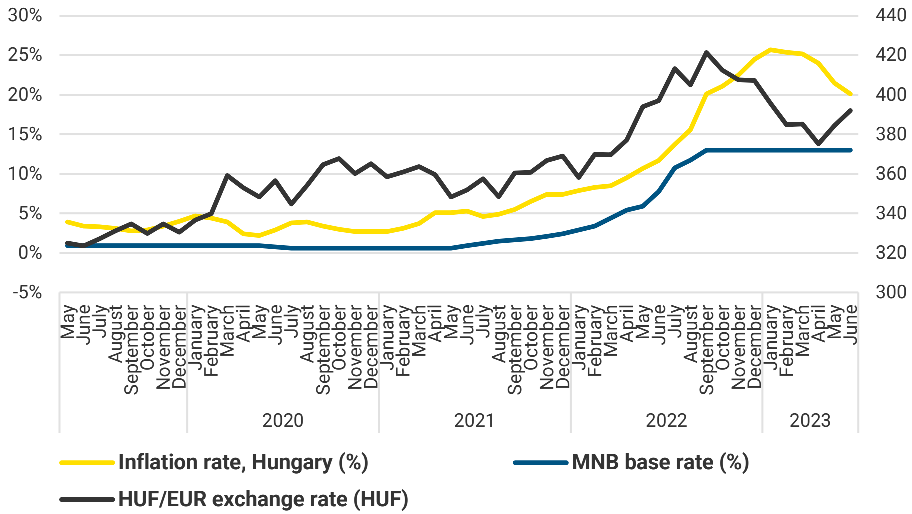
Economic summary

- Hungary's GDP growth decreased from 7.1% (2022) to -1.7% in H1 2023. According to the European Commission's forecast, Hungarian economic performance will grow by 0.5% in 2023 and by 2.8% in 2024. In June 2023, inflation rate was 20.1%. The annual average is expected to reach 16.4% (14.5% in 2022).
- Industrial production decreased by 4.8% in H1 2023. The growth rate of construction prices slowed down from 22.8% (H1 2022) to 20.7% (H1 2023).
- The base rate began rising rapidly since 2020, reaching 13% by the end of 2022, and remained in the same level ever since. The 5-year EUR Swap Rate increased from 2.94% to 3.15% between January and June 2023, in addition to the European Central Bank (ECB) base rate increase in four steps from 2.50% to 4.00% throughout H1 2023.

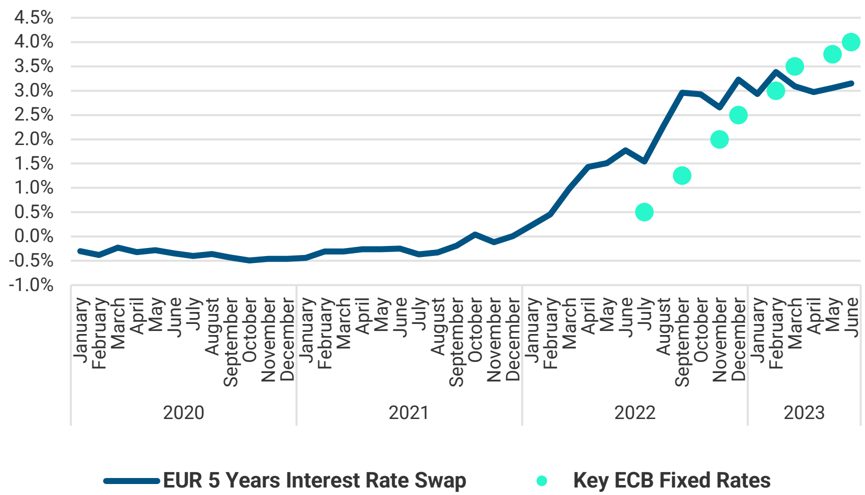
Volume change of GDP (compared to corresponding period of previous year)



Base rates, exchange rate



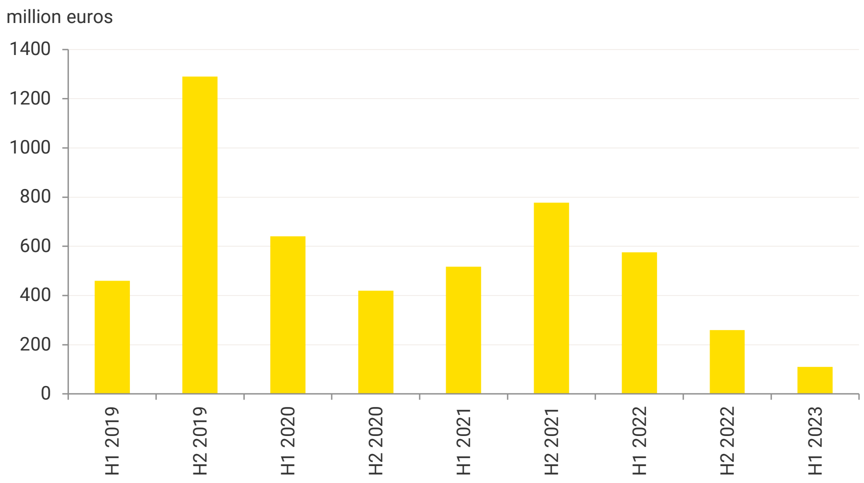
ECB fixed rates, EUR 5Y IRS



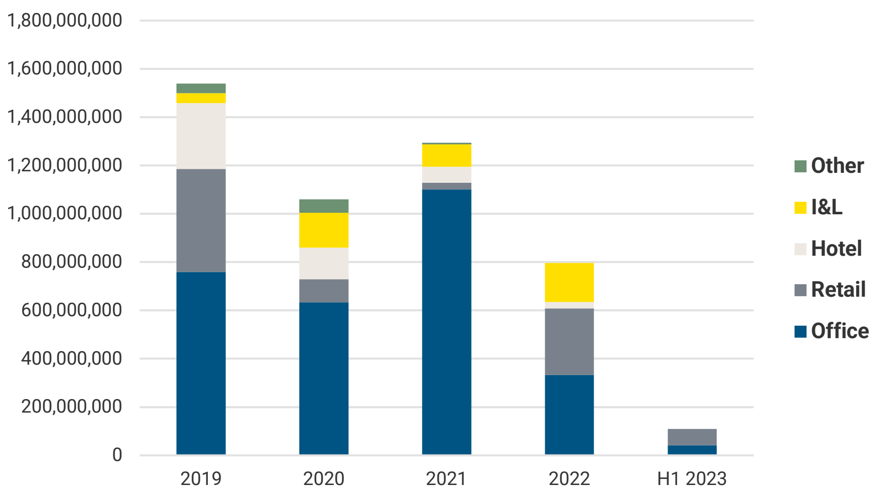
Transactions

- The total volume of market transactions in H1 2023 equaled 110 million euros, which is 81% lower than in H1 2022.
- Recently there is a tendency of slowing interest in the office sector, both in volume and share. (2021: EUR 1.1 bn, 85% / 2022: EUR 332 m, 40% / H1 2023: EUR 42 m, 39%). In the case of the logistics sector, the lack of deals is mainly due to the lack of products for sale, which is expected to change in the near future due to the numerous developments.
- Out of the few transactions, most are still involving domestic buyers. Additional funds may be expected due to the Baross Gabor Reindustrialization Program in Hungary, however, the capacity of local private investors generally caps at EUR 20 to 30 million ticket size.

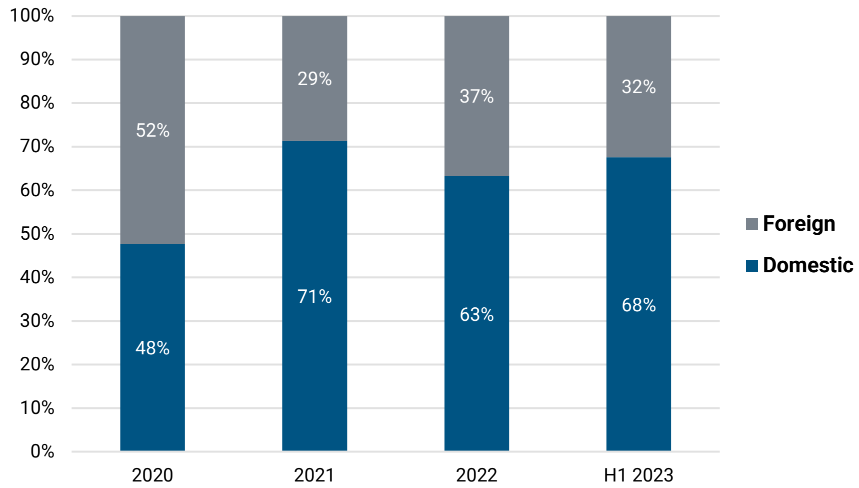
Commercial Real Estate Investment Volumes



Sectoral Share of Investment Volume

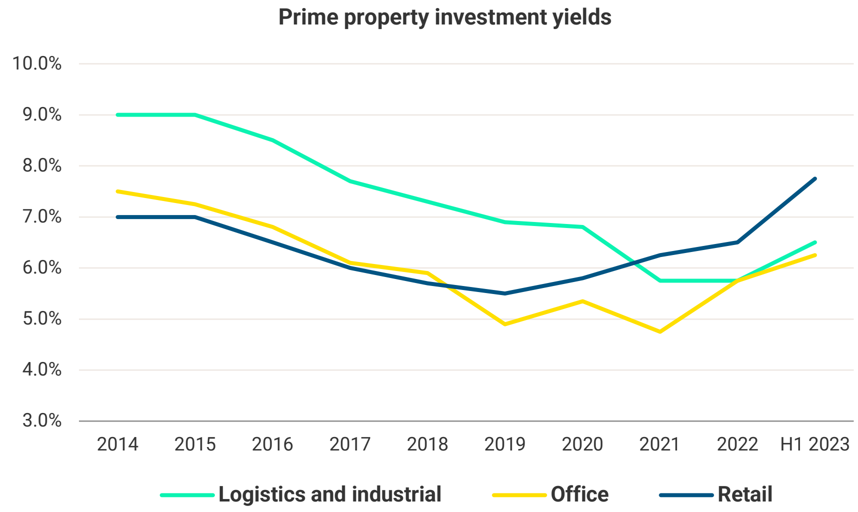


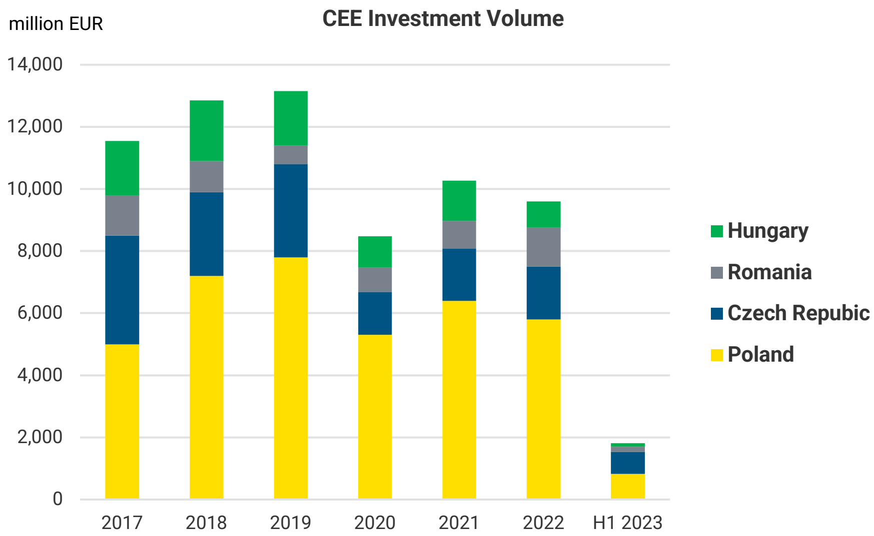
Domestic vs. Foreign investors

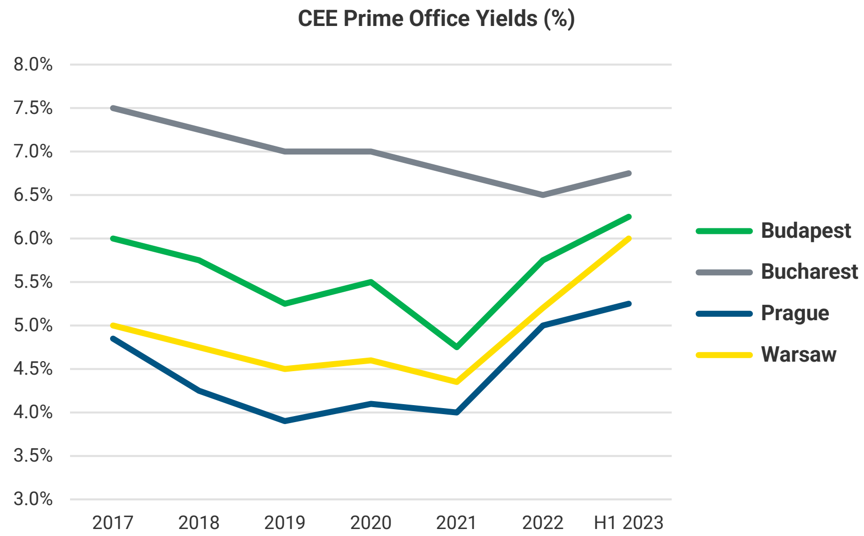


Prime yields & regional comparison

- Yield-shift clearly began in Hungary, however with a bit of a delay compared to the regional countries. Heightened financial costs required further price discovery across all sectors. Prime yields in the office and industrial real estate markets shifted towards the range of 6.25-6.50%, and to 7.50-7.75% in the retail sector.
- Investment volumes in regional countries have also seen a significant decrease. Poland accounted for most regional transaction volume, where the H1 2023 volume (ca. EUR 870 million) was 70% lower compared to H1 2022. More than half of the investment volume in Poland was in the warehousing sector.
- Czech Republic was the second most active in the region with ca. EUR 710 million volume, which means a 42% year-on-year decline.







Forecast

Pricing is expected to undergo further transformation to restore liquidity. The anticipation is that increased activity could be fueled by opportunist investors, as historically, deals made during difficult economic periods have often resulted in strong returns in the long run.

However, given the existing market conditions in the commercial real estate industry and the investment market, it's worth noting that there can be more favourable investment avenues right now than property. For instance, government bonds present an alternative with potentially greater appeal. This preference for government bonds stems from the current uncertainties surrounding commercial real estate due to factors like fluctuating demand, economic volatility, and shifting work patterns.

MORE INFORMATION

ESTON International

Tel: +36-1-877-1000

Head of Capital Markets: attila.balogh@eston.hu

Managing Director: adorjan.salamon@eston.hu

Research: natalia.varsadi@eston.hu