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## **Jones Lang LaSalle sees positive signs on the Budapest Real Estate Market**

Thierry Delvaux, Managing Director of Jones Lang LaSalle Budapest, quote his viewpoint on office, retail, industrial and investment markets.

In terms of construction activity, we have seen significantly lower speculative completions compared to the previous years. In the first half of the year 47,100 sq m of office was handed over, of which only 14,600 sq m was built on a speculative basis. Total modern stock in Budapest is 1.7 million sq m, of which 14.5% is unoccupied. Vacancy rate has been decreasing for two years now and we anticipate a further decrease in the next 12 months. In terms of take-up, the market has been quite active. Take-up in the first half reached 96,700 sq m, an increase of almost 65% compared to the same period a year before and 30% higher than in 2001, when the highest take-up was recorded. Business related companies took the most space, representing 27% of the total take-up, IT-companies (23%), manufacturing (14%) as well as banking and finance (14%) business sectors were also active in the first half. Quite remarkable is that the market has witnessed a number of pre-lettings during the first 6 months, totaling 30,000 sq m. In terms of rents, Budapest is the only city, in which the prime rent has not changed over the past three years, remaining stable at €17,9 per sq m per month, whilst the average effective rents vary between €11-15,5 per sq m per month.

Whilst the office market is still developing and we see high level of demand, we are still witnessing the slowdown of the general shopping centre market. New types of retail elements started to appear on the market, specialized shopping centre developments, retail parks and factory outlets (FOC's) as well as department stores have emerged. Material, the first specialized shopping centre – dedicated to home furnishing and design – will open in March 2005. The building is currently 40% let. Retail Parks around Budapest and in the largest cities in Hungary have been developing, and today the major hypermarket and D.I.Y. operators can

be found all over the country. The first two FOC's are currently under construction and will be finished in autumn. Group GL International, a Belgian development company is constructing its 17,000 sq m of outlet centre in Törökbálint, whilst Miller Development, an English developer is building a 13,300 sq m of outlet centre in Biatorbágy. Since EU accession, international retailers have been entering the Hungarian market. C&A opened its department store on Váci utca, whilst Zara secured 2,500 sq m of retail space on Váci utca and another unit within the Árkád Shopping Centre. There are several other international retailers, who have monitored the market over the last few years, and we expect to see them enter during 2005.

The German Media Saturn opens its first store this autumn in the Mammut Shopping Centre with 4000 sq m, and is scheduling a further 2 stores in the near future.

There are a number of planned re-development projects in downtown, which will increase the supply; although these will not be completed for the next 12-18 months. In terms of rents, we have witnessed some increase. Rents in the shopping centers vary between €25-80 per sq m per month. The highest rents refer to the best shopping centers, like Westend City Centre with the best location within the mall. Prime high street rents remain stable between EUR 75 sq m per month and EUR 110 per sq m per month; however it is difficult to secure locations for emerging retailers.

In contrast to the retail and office market, intensive construction activity characterized the industrial sector. In the first half of the year the warehouse completions totalled 82,000 sq m, 58% higher than in the same period of 2003. Only 17% (14,000 sq m) of the new supply was built on a speculative basis. The majority of completions were expansions to existing tenants within quality industrial parks. The main developers active on the market are the following: ProLogis, AIG/Lincoln, Rodamco/Grontmij, Crow Holdings. However a new developer has emerged, Parkridge, who will complete their first 20,000 sq m warehouse development, located close to Szigetszentmiklós by the end of the year. Due to the record level of take-up, the vacancy rate fell to 5.5%. Looking closer at the take-up, the industrial market was very active in the first six months. Until the end of June the registered take-up was 104,000 sq m, and only 25% of the total take-up was below 5,000 sq m. The largest deals include Rynart's 28,000 sq m space in Rozália Park II and Geodis took 14,700 sq m of warehouse space in ProLogis Park. ProLogis also delivering a 23,000 sq m BTS building for Geodis in EuroBusiness Park where they have purchased land of 6.5 HA for this project. Prime asking rents remained between EUR 4.5-5.3 per sq m per month. We anticipate an increase in rents from 2005.

In terms of real estate investments, the Budapest market is booming. Hungary has repeated its 1999 surge of investment, with 11 deals and over €600 million of volume, which surprised the region, being currently the leader in terms of regional investment volume in 2004. A significant contributor to this was the €285 million purchase of twelve shopping centers in Hungary by Klepierre from Plaza Centers. A factor differentiating Hungary from a regional perspective is that there are a number of domestic closed-end funds that have been very active in Hungary, particularly in the smaller cap volumes. The third quarter of the year was marked by noticeable yield compression on the Budapest office investment market. At the beginning of 2004 the benchmark initial yield for investment grade properties was around 8.5%, whilst by the end of the quarter the new prime yield will be set at below 7.75%. Retail warehousing and shopping centers continue to be the focus of international investor interest, whilst high street provides attractive investment opportunities for private investors but remains highly illiquid. Industrial/logistics yields remain hard to benchmark due to very low transaction volumes.

To summarize, for the first time in several years we have seen real growth within all the real estate sectors in Budapest.

Unfortunately, this has not had any impact on rental levels yet, but 2005 should definitely see rents accelerating again, at least in the office market. As for investments, few products will be offered to the market in 2005, which will translate into a much smaller investment volume.