

Big Box Hungary

INDUSTRIAL MARKET IN HUNGARY

FOURTH QUARTER 2007

Q4 2007 AT A GLANCE

	Budapest	Surrounding
Stock	↑	→
Take-up	↓	↑
Vacancy Rates	↑	↓
Rents	→	→

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2007 was not a spectacular year on the industrial market in terms of volume but there was a clear shift in supply between the submarkets. Yearly completion level was 14% down on 2006. In the previous year only 9% of the completion level was realised in the Budapest market, whereas this year 54% of the 104,000 sq m total was realised in this submarket.

This is indicative of developers' increasing focus on inner-city areas – especially in district 9 – after the developer boom around the Greater Budapest area calmed down. Q4 experienced a record level of completion at the Budapest submarket reaching 42,000 sq m, which is an all-time record in developers' activity in this submarket. The total supply growth in 2007 (57,000 sq m) was almost five times as high as in 2006.

Take-up levels in 2007 experienced growth of 38% y-o-y, totalling 215,000 sq m. Take-up in the last quarter was the second best this year, only slightly lower than Q3.

Take-up was driven by new lease agreements, while pre-leases and renewals totalled 21% and 25% respectively over the year. This ratio was different in Q4 since pre-leases had a share of 35% of the total 66,500 sq m. Therefore net absorption was relatively low despite the high gross demand. In Q4 we saw the first letting transaction outside of the Greater Budapest area which proves the increasing interest for countryside location.

The vacancy rate increased from 8.0% (YE 2006) to 11.2% in 2007. As a consequence of robust supply growth, availability increased in Budapest but not in the Surroundings.

Net absorption was significantly down compared to 2006. 66,800 sq m in 2007 signals a drop of 40% which is due to the high proportion of pre-lease and renewal agreements this year.

Rents remained flat compared to Q3 but there was an increase on an annual basis in prime rents. In the new mixed office-logistics schemes located close to downtown we saw evidence of increasing occupation costs. Therefore we quoted EUR 6.00-6.50/sq m/month as prime rent.

Q4 2007	Budapest	Surrounding	Total
STOCK (sq m)	325,900	717,400	1,043,300
COMPLETION Q4 (sq m)	42,300	0	42,300
SPACE UNDER CONSTRUCTION (sq m)	75,000	100,000	175,000
TAKE-UP (sq m)	23,100	43,500	66,600
VACANCY RATE (%)	17.30%	8.40%	11.20%
HEADLINE RENT (EUR / sq m / month)	4.25 -6.50	3.75 – 6.00	3.75-6.50

MAJOR INDUSTRIAL LETTINGS, Q4 2007

Tenant	Project	Size (sq m)
confidential CBRE tenant	ProLogis Gyál	16,100
Willi Betz	M1 Business Park	9,200
Philipp Morris	East Gate Business Park	7,000
ETL Hungary	ProLogis Hegyeshalom	3,200
Mikropakk	Euro Business Park	2,500

SUBMARKET 1 – BUDAPEST

There were three projects completed in this sector, making a total of 42,000 sq m.

- The first phase of Innove Business Park (7,000 sq m) was finished in district 9 on Illatos út. The second phase of the project totalling 12,000 sq m will be soon under construction, and is already partially pre-let.
- The second phase of Citypoint 9 (6,300 sq m) was also completed in district 9 on Gubacsi út. Convergence Capital's inner-city project totals more than 10,000 sq m at the moment.
- In district 4 Európa Center opened its warehouses offering 29,000 sq m. The project is already 34% let while its second phase, totalling 10,000 sq m and due for completion in the middle of the year, is already pre-let.

Dél-Pesti Üzleti Park reached its final capacity of 18,000 sq m and is already almost 100% let. It is located right next to Innove Business Park and in the close vicinity of Citypoint 9.

Take-up level reached 23,000 sq m; of that figure almost 70% (!) were pre-lease agreements. As expected, vacancy levels experienced a significant growth due to the high completion level. While vacancy stood below 2% a year ago, currently it stands at 17.20%. This reflects the enormous supply increase in the area. The completion level in Q4 alone was as high as the last eight quarters put together.

SUBMARKET 2 – BUDAPEST SURROUNDING

Take-up level exceeded 43,000 sq m, increasing by 30% q-o-q, making Q4 the second best quarter in 2007. On an annual basis take-up rose by 20% while net absorption decreased to half the level of 2006. Renewals and pre-lease agreements accounted for 42.50% of the total. Among the biggest deals Willi Betz and MHH prolonged their lease agreements for more than 11,000 sq m in M1 Business Park, while Philip Morris signed a pre-lease at East gate Business park for 7,000 sq m. The biggest new deal of 2007 was signed in Q4 for 16,100 sq m at ProLogis Gyál with the assistance of CB Richard Ellis.

Due to the lack of completions and the high take-up level, vacancy decreased by 70 base points and stands at 8.40%, which is the lowest level since Q3 2005.

We expect new projects to be completed in Q1 2008 such as Airport City at Vecsés, developed by Ablon and totalling 10,000 sq m, but a sharp increase in the vacancy is not likely.

The first logistics scheme outside of the Greater Budapest area welcomed its first tenant: ETL Hungary signed in ProLogis Hegyeshalom in last quarter 2007.

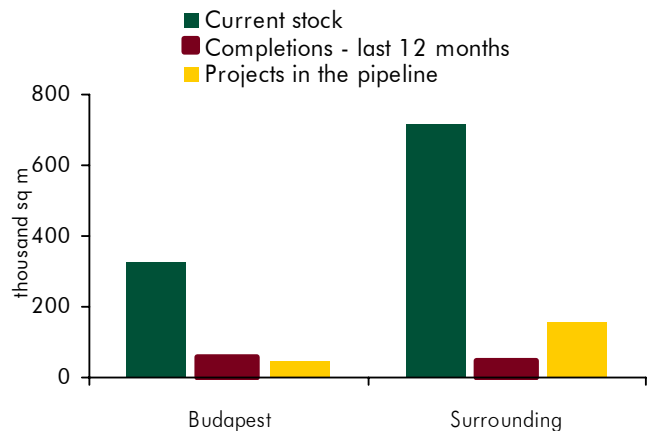
KEY LOGISTICS LOCATIONS – BUDAPEST AND SURROUNDING



- Existing logistics locations
- Future logistics locations

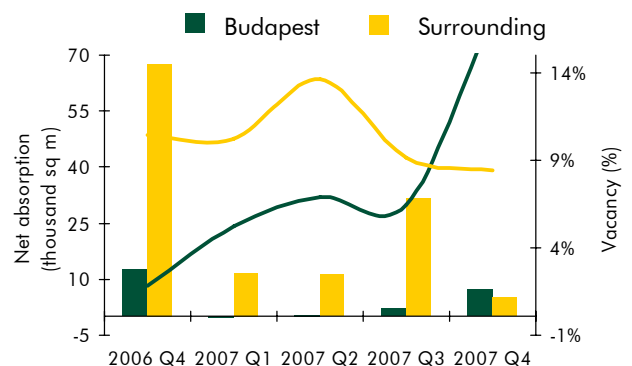
Source: CB Richard Ellis

GREATER BUDAPEST AREA STOCK AND COMPLETIONS 2007



Source: CB Richard Ellis

NET ABSORPTION AND VACANCY BY SECTORS Q4 2006 – Q4 2007



Source: CB Richard Ellis

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