CB RICHARD ELLIS | MARKET VIEW

Big Box Hungary

INDUSTRIAL MARKET IN HUNGARY

THIRD QUARTER 2008

" Take-up reached record level in Q3 2008 with 89,900 sq m; Budapest South was the most popular submarket."

" The average vacancy stands at 14.3%. The highest rate is in Budapest North while it is below average in Budapest South and North."

" The future pipeline remains strong; the highest completion is expected on the Budapest South submarket. "

Q3 2008 AT A GLANCE

	Y-o-Y	Q-o-Q
Completion	↑	↓
Take-up	↑	↑
Vacancy Rate	↑	↓
Rents	↑	→

CONTACTS

Managing Director:

Adrienne Konthur
adrienne.konthur@cbre.com

Head of Industrial Agency:

Péter Würsching
peter.wurshing@cbre.com

Deputy Managing Director :

Margaréta Mészáros
margareta.meszaros@cbre.com

Research Analyst:

Gábor Borbély
gabor.borbely@cbre.com

www.cbre.hu

In Q3 2008 the modern industrial stock in Hungary grew to in excess of 1.3 m sq m. New supply in Q3 reached 51,700 sq m which is almost three times as high as in the same quarter of 2007. However the new supply throughout 2008 is already twice as much as the total completion for the entire 2007.

It is already clear to see that 2008 will top every record ever experienced in the Budapest industrial market both in terms of supply and demand. Demand reached a record level of 89,900 sq m in Q3, which means that by only October 2008 more industrial space was let than in 2007. While usually take-up is generated by the high interest for ProLogis Parks in Q3 2008 lettings went well in WestLog DC, Airport City, IPD Vendel Park and the second phase of Tulipán Park.

Since demand was mainly generated by new deals (95%), coupled with a relatively low completion, it resulted in a high net absorption and a decreasing vacancy. The average vacancy level decreased 270 basis points and stands at 14.3% currently. However, taking into account the high future pipeline for Q4 2008 and Q1 2009, we expect the average rate to increase again.

At the beginning of 2008 many developers announced they were to start large new industrial projects especially around the airport. By now, it is obvious that the realization of these projects and their completion date is questionable. Instead of new projects the supply will be generated by expansion of successful existing fully let parks (Europolis, Wing, Bilk, Európa Center, ProLogis). These successful developers tend to start speculative developments. Despite of the numerous postponed developments, the upcoming pipeline is likely to exceed 200,000 sq m in 2009, a conservative estimation. It is important to note that the Budapest South submarket will undergo the fastest growth by H1 2009.

Rents are under pressure, currently they stand between EUR 4.2-6.5/sqm/month. However the market sentiment is positive at present that lettings will continue to go well, they may be affected by the results of the widening economic uncertainty in the near future.

Q3 2008	Budapest West	Budapest North	Budapest South	Total
STOCK (sq m)	597,200	138,700	564,500	1,300,400
COMPLETION Q4 (sq m)	0	30,700	21,000	51,700
SPACE U/C (sq m)	48,000	19,000	110,000	180,000
TAKE-UP (sq m)	37,000	13,100	39,800	89,900
VACANCY RATE (%)	13.4 %	27 %	12.2 %	14.3 %
HEADLINE RENT (EUR/sq m/m)	4.4 -6.0	4.4 – 5.4	4.2-6.5	4.2-6.5

MAJOR INDUSTRIAL LETTINGS, Q3 2008

Tenant	Project	Size (sq m)
confidential	BILK	15,000
Müller	Tulipán Park II	9,000
Gebrüder Weiss	ProLogis Park-Sziget	7,200
Boy	WestLog DC	6,200

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SUBMARKET 1 – BUDAPEST WEST

In 2008 Q3 there were no new warehouses completed in this submarket, thus the current stock stands at 597,200 sq m. This submarket is the largest and the most established one but the growth of it is continuing further as several large projects will be completed by the beginning of 2009.

The demand strengthened after last quarter's low level and doubled its size, standing at 37,000 sq m which is equal to the 2007 Q3 figure. This strong figure is due to the increasing interest for WestLog DC, where letting is moving quickly after Rynart moved out. There were further lettings on 12,000 sq m in the second phase of Tulipán Park while IPD Vendel Park became 75% let this quarter.

As there were no new projects completed in the submarket and the demand was strong the net absorption reached 34,500 sq m. This high level resulted in a sharply decreased vacancy.

At present the vacancy level stands at 13.4 % which is similar to the level registered at the beginning of the year.

Headline rents in this area vary significantly between EUR 4.4-6.0/ sq m/month, dependent on the size of the units offered.

SUBMARKET 2 – BUDAPEST SOUTH

The Budapest South stock stands at 564,500 sq m. In Q3 2008 there were only 2 new projects completed on 21,000 sq m, both being expansions, in BILK and InNove Business Park.

The demand experienced a slight decrease as it was 20% lower than in Q2 2008. This quarter was again successful for the inner city logistics as letting was high in Citypoint 9, while pre-leases were signed for the second phase of Dél-Pesti Business Park, due to completion in Q2 2009. Airport City welcomed its first tenants on 3,000 sq m as well.

The vacancy level is below the average at 12.2% after a 25 basis points decrease. However, we expect it to increase sharply as this submarket has the highest pipeline. Currently 110,000 sq m industrial space is under construction.

The headline rents in this submarket show the highest variance between EUR 4.2-6.5 /sq m/month. The projects around the airport are priced with a premium while inner city logistics are usually offered for EUR 5.0-5.5/ sq m/month, but the ProLogis warehouses are offered at lower price primarily due to their larger size.

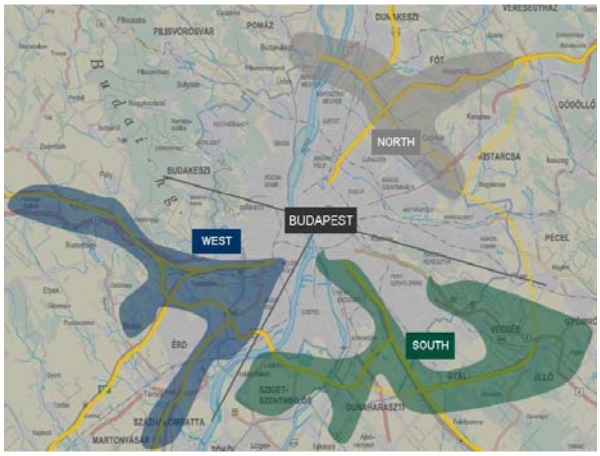
SUBMARKET 3 – BUDAPEST NORTH

The stock of the Budapest North submarket stands at 138,800 sq m. Both Európa Center and East Gate Business Park were expanded in Q3 2008, totalling 30,700 sq m. These parks will be further expanded through 2009 generating most of the new supply in the submarket.

Demand was stronger than in Q2 2008 reaching 13,100 sq m as new tenants moved in to both Európa Center and East Gate Business Park.

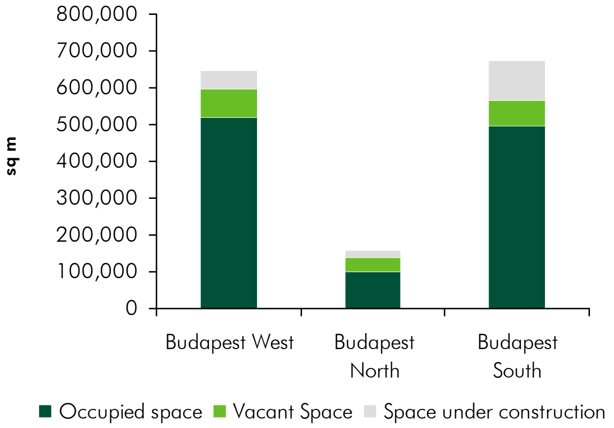
The vacancy rate stands at 27% since this submarket has the highest level of completion. This figure is substantially higher than the average but we expect it to decrease by Q4 2008 since the letting tends to move quickly in the two biggest schemes of this submarket. Headline rents vary between 4.4-5.4 EUR/ sq m/month.

LOGISTICS SUBMARKET IN BUDAPEST AND ITS SURROUNDINGS



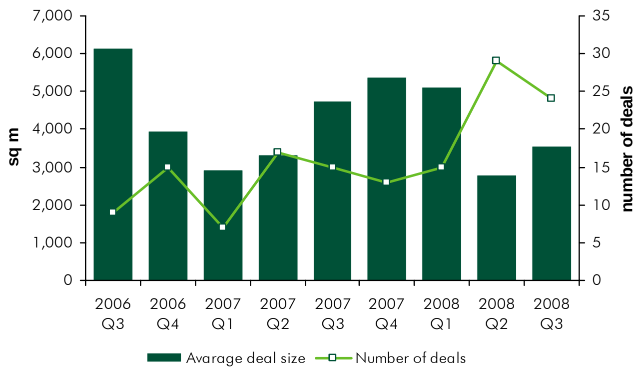
Source: CB Richard Ellis

POTENTIAL AVAILABILITY BY LOCATION (at the end of Q3 2008)



Source: CB Richard Ellis

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: CB Richard Ellis

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