

Portfolio



RICS



ELTENGA

# Market Sentiment Survey

H2 2015



Portfolio-RICS-Eltinga  
Market Sentiment Survey | H2 2015

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# Highlights

The Budapest Commercial Property Index has reached 101.39, its highest reading on record. The second half of 2015 added 6.43 to the index value, the highest increase of any period to date. The improvement was a result of perceived rental growth and yield compression in almost every subsegment.

According to RICS Professionals, the Hungarian real estate market could become even more attractive to investors in the next 6 months. Close to 85% of the respondents expect investment appetite to improve further, which shows that they are increasingly optimistic about the future of the real estate market.

Yield compressions were observed with regard to every submarket except for Good Quality Non-Central Offices and the Top 5 Malls. Office yields are now all below their H2 2011 levels, industrial yields are below 9% for the first time since the survey started in 2011, while retail yields remain unchanged compared to H2 2011.

Respondents registered rental growth in almost every subsegment. Top 5 Mall rents increased 7 euros to 45 euros, which is the most significant upward movement on record. Prime Out-of-Town Logistics is the only subsegment where rents have decreased in H2 2015, while Big Box Retail rents have remained unchanged. Office rents have surpassed their H1 2011 levels for the first time in every subsegment.

Based on the answers, the segment that offers the best conditions for developers and investors is still the office sector. Compared to the previous six months, confidence in the industrial sector has significantly risen and is now on par with confidence in the retail sector.

## All median figures for H2 2015

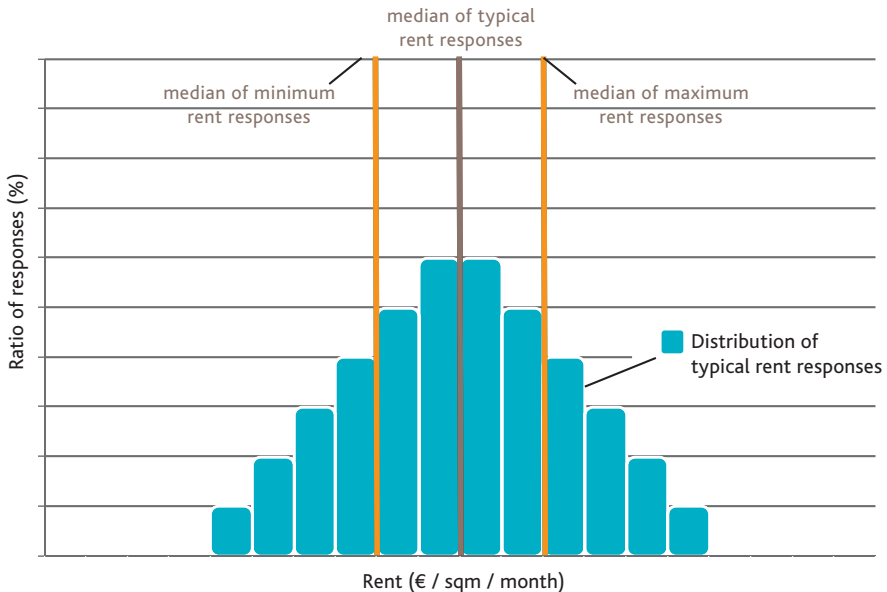
	Yield (%)	Rent (€/sqm/month)		
		Typical	Minimum	Maximum
Top CBD office building	7	15	13	19.5
Prime non-CBD office building	7.5	12.5	11.25	14
Good quality non-central office building	8	10.75	9.5	12.5
Prime out-of-town logistics centre	8.625	3	2.5	4
Small Business Unit	8.625	4	3	6
Top 5 shopping malls	7	45	30	70
Mall-type retail park	8	10.25	6	15.5
Big box retail	8	7	5	9.25

# Explanation

The most important output resulting from our research is the rental rates and yields data (presented in charts similar to the one below). As this publication is based on the opinions of individuals, these charts reflect the distribution of responses received with respect to a given variable, i.e. rental rates or yields related to a type of property. Extreme values were removed and the ranges of the remaining answers were then divided into subsections. The charts indicate the percentage of responses falling into each subsection, with the median value marked with a red vertical line (the median is the middle value of the data set when it has been arranged in ascending order, i.e. the numeric value separating the higher half of the data from the lower half).

The survey included questions regarding the realistic minimum, maximum, and typical rental rates with respect to a particular type of property. While we also present all of these in a tabular format, the rate charts only include the responses to the question of typical rental rate levels.

Explanatory example chart





101.39

The Budapest Commercial Property Index has reached 101.39, its highest reading on record. The starting value of the Index was set to 100.00 based on survey data collected in the second half of 2011. By H1 2013, it had decreased to the region of 90.00, where it then floated for 18 months. In H2 2014 the index value started to grow again and it reached 94.95 in H1 2015. The second half of 2015 added 6.43 to the index value, the highest increase of any period to date.

The index is made up of a compound value that traces senior real estate professionals' assessments of current yields and rental rates for

the commercial real estate market. A measure of value is created by dividing the median typical yearly rent by the current yield for each of the eight subsegments present in the survey, and attributing weights to these values in order to reflect the relative volume of each subsegment. The results are then added up and compared against the other surveys.

Falling yields and rising rents have both contributed to the index finally surpassing its starting value. Rents have increased in H2 2015, rising above H2 2011 levels for the first time on three submarkets. In most segments of the market yields have decreased in the second half of 2015 and in some cases they stand lower than they did in 2011. However, it should be noted

that current yield opinions are likely to be based on much stronger transactional evidence, while the answers received in 2011 were almost entirely sentiment-based.

The most important drivers of this six months' record growth were a perceived yield compression with regard to every submarket except for Good Quality Non-Central Offices and the Top 5 Malls, as well as a slight rental growth indicated in relation to almost every submarket. Prime Out-of-Town Logistics is the only subsegment where rents have decreased in H2 2015, while Big Box Retail rents have remained unchanged. These two are the biggest of the eight subsegments, each representing around 30% of the total volume, meaning that had they also recorded rental growth, the value of the index would have been even higher.

H2 2015	101.39
H1 2015	94.95
H2 2014	93.74
H1 2014	89.67
H2 2013	90.74
H1 2013	90.35
H2 2012	96.53
H1 2012	95.21
H2 2011	100.00

# Categories

1. Top CBD office building



5. Mall-type retail park



2. Prime non-CBD office building



6. Big box retail



3. Good quality non-central office building



7. Prime out-of-town logistics centre



4. One of the Top 5 shopping malls



8. Small Business Unit



The survey uses eight hypothetical properties intended to represent major segments of the Budapest commercial property market. Their descriptions include typical characteristics in terms of location, quality, size, and occupancy, making them suitable investment products. When asking about rental rates, hypothetical lease transactions were defined to reflect an average exchange on the given market in terms of both size and basic conditions. The photos accompanying each detailed description of buildings are of properties that do not actually exist on the Hungarian market. However, they have been selected to create the right impressions of the scenario at hand and to ensure that all respondents consider the same property categories when answering the questions.



## Office sector

In comparison to the results of the previous surveys, all office categories show significant improvements as to yield and rent levels. Yield responses sharpened in two categories, thus reaching the most aggressive yields in the history of this survey (from H2 2011). Non-central office yield stayed on the same level. That shows an ongoing optimistic view of how the market has evolved in the last 24 months. Rents also show a very bright picture with increases between €0.5 and €1.25 shown mostly

in minimum and typical rents. Therefore, almost all rent response categories reached their all-time maximums. Maximum rent only increased in the 'Top CBD Office' category by €1.5, thus indicating a potential future return to the €19.75 peak in H1 2014. The range between minimum and maximum rents widened in the Top CBD Office category, suggesting a more diversified spread of rents among buildings within that category, while it narrowed in the other two categories. On average,

typical rents still continue to have the tendency of approximating minimum rents. Similarly to the last survey, the variance of the responses is relatively high in the first office category with most of the responses falling into the 13-15 euro range but along with a high number of responses also falling into the 16-19 euro range.

Rents have reached record highs.

## 1. Top CBD office

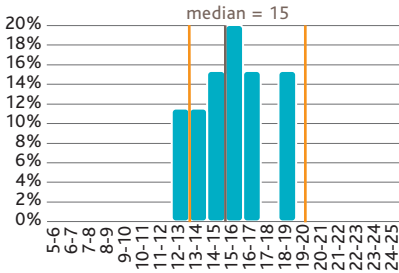
Category A (according to BRF) office building located within the CBD of Budapest:

- represents the highest standard in the market in terms of technical specifications and prestige
- it has an underground garage
- the building is at least 95% let to multiple tenants,
- at least 80% of the tenants are international companies
- the average unexpired lease term is at least 4 years

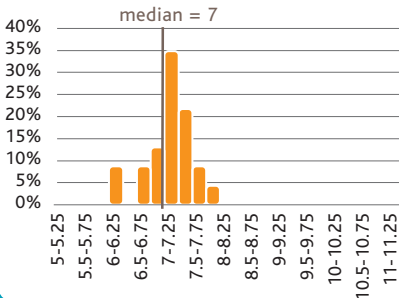
Market headline rental rate for a specific letting transaction:

- 500 sqm office space
- 5-year lease term
- strong international tenant

### Rent opinions (€/sqm/m)



### Yield opinions (%)



## 2. Prime non-CBD office

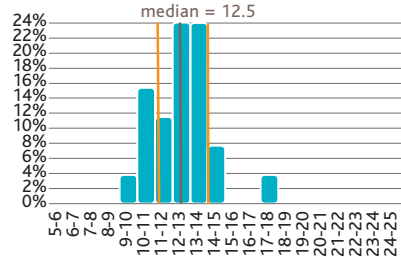
Category A (according to BRF) office building located in an established, but non-CBD office location:

- represents high standard in the market in terms of technical specifications and prestige
- it has an underground garage
- the building is at least 95% let to multiple tenants
- at least 80% of the tenants are international companies
- the average unexpired lease term is at least 4 years

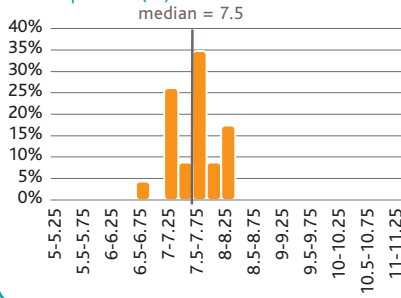
Market headline rental rate for a specific letting transaction:

- 500 sqm office space
- 5-year lease term
- strong international tenant

### Rent opinions (€/sqm/m)



### Yield opinions (%)





### 3. Good quality non-central offices

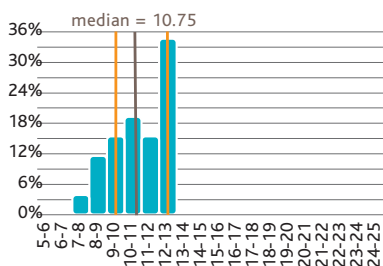
Category A (according to BRF) office building located in a non-central office location:

- built no more than 10 years ago
- it has an underground garage
- good public transportation
- the building is at least 95% let to multiple tenants, not necessarily of international covenant
- the average unexpired lease term is at least 3 years

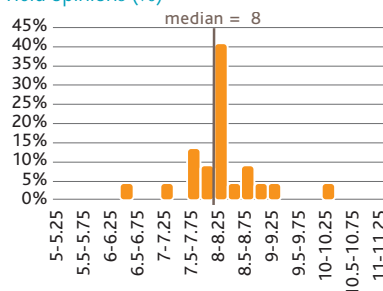
Market headline rental rate for a specific letting transaction:

- 500 sqm office space
- 4-year lease term
- reliable and financially stable tenant

#### Rent opinions (€/sqm/m)



#### Yield opinions (%)



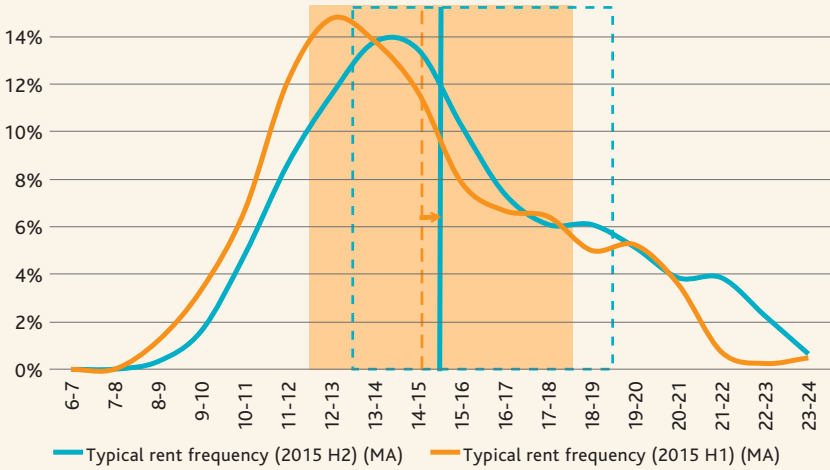
Office yields have hardened significantly in the top two office categories. Typical office rent levels have also improved significantly in all categories and reached their highest levels in the history of the survey. It is the first time when all figures in the office categories are more aggressive than the level they were at in H2 2011.

György Lindwurm MRICS,  
Cushman & Wakefield

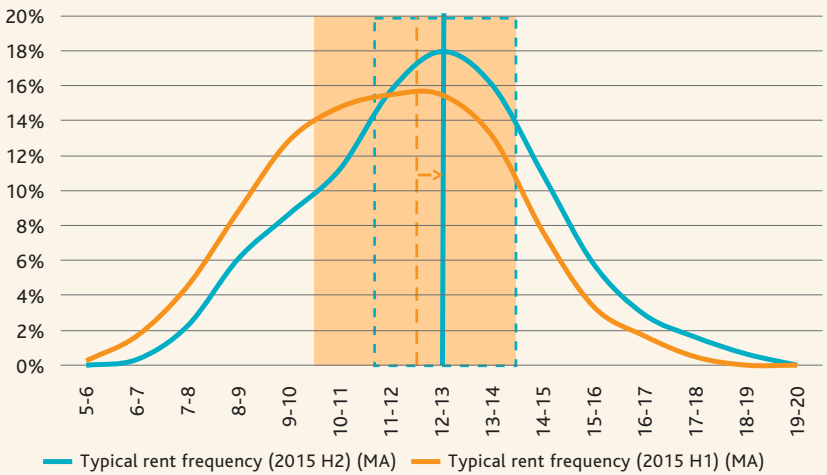
The market has clearly gained liquidity, especially in the prime sector. We also start to see development plans, especially in office sector. Yields are compressing.

Jaroslav Kopac MRICS, JLL

### Distribution of responses in 'CBD office rent' category



### Distribution of responses in 'Prime Non-CBD office rent' category





## Retail sector

This time, compared to last results, the retail sector has again shown improvement in sentiment towards yield expectations but also towards rental levels. Yields for the Top 5 malls category have clearly stabilised at a 7% yield level. This is despite any actual transaction occurring on the market. For Mall type retail parks and Big Box retail we have observed further yield compression (same as in the last round), and the resulting yields

have moved back to the level quoted at the start of the survey in H2 2011, stabilising at 8%.

Opinions on rental levels have increased rather significantly for the Top 5 malls category (15-20%). For Mall type retail parks this movement was less significant. Respondents feel typical rents have increased by 2%, which is

a result of a 3% increase in maximum rents and a 15% decrease in minimum rents.

This overall positive movement is noted despite the introduction of new legislation in Q1 2015 which was expected to negatively affect the retail sector (Sunday closures and food supervisory fee increase).

Top 5 Mall rents showed significant upward movement.

## 4. One of the Top 5 shopping malls

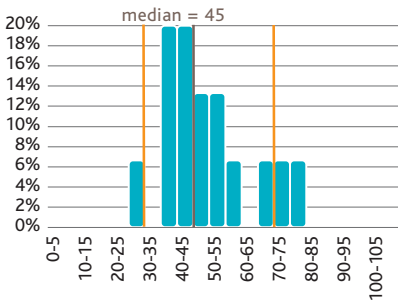
Prime shopping centre located in Budapest, at a metro station or central location:

- GLA is at least 40,000 sqm, no vacancy
- the property accommodates at least 2 major anchor tenants
- the average unexpired lease term is at least 5 years

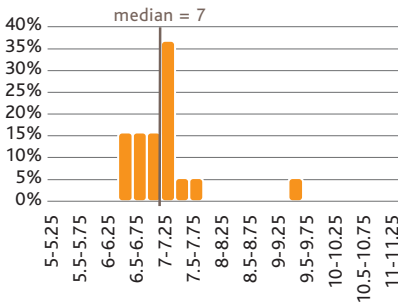
Market headline rental rate for a specific letting transaction:

- 200 sqm retail unit
- 5-7 year lease term
- strong international brand
- well-positioned unit within the centre

Rent opinions (€/sqm/m)



Yield opinions (%)



## 5. Mall-type retail parks

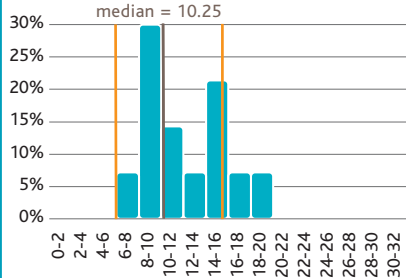
Retail park located in Budapest, in an established location:

- GLA is approx. 12,000 sqm, no vacancy
- the property accommodates at least 1 major anchor tenant
- the average unexpired lease term is at least 5 years

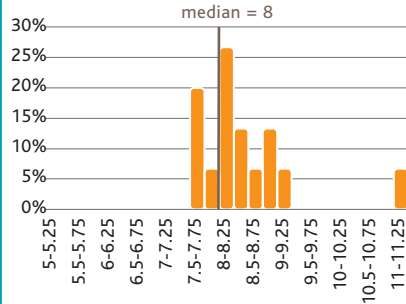
Market headline rental rate for a specific letting transaction:

- 300-400 sqm
- 5-year lease term
- local company / strong international brand

Rent opinions (€/sqm/m)



Yield opinions (%)



## 6. Big box retail

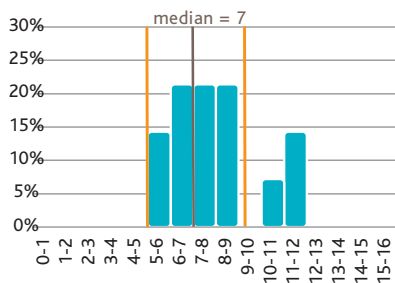
Retail park located in Budapest, in an established location:

- GLA is approx. 12,000 sqm, no vacancy
- the property accommodates at least 1 major anchor tenant
- the average unexpired lease term is at least 5 years

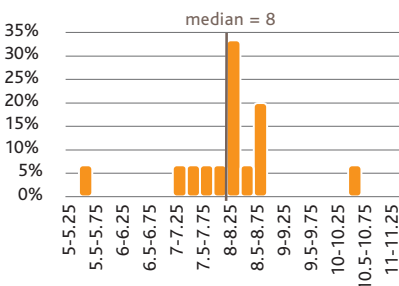
Market headline rental rate for a specific letting transaction:

- 300-400 sqm
- 5-year lease term
- local company / strong international brand

### Rent opinions (€/sqm/m)



### Yield opinions (%)



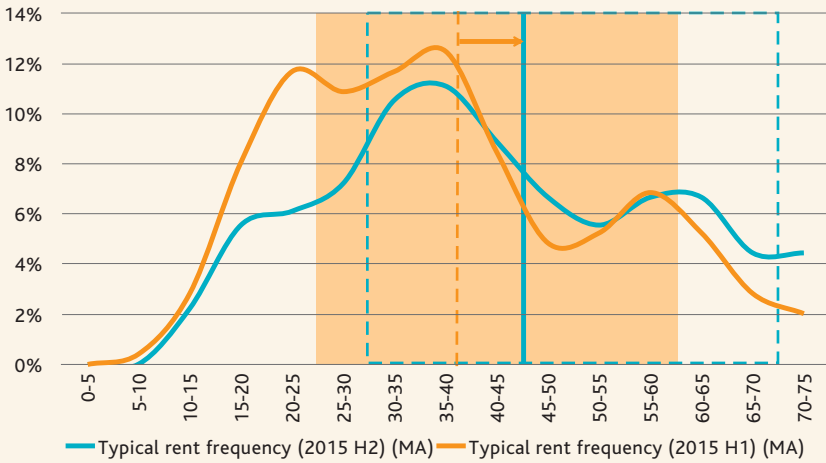
“ The market is clearly improving. Value-add investors are dominant while core investors still have not returned to Hungary in great numbers. The reasons for this are still the financing conditions (margin and LTV) which don't produce an attractive (competitive) IRR on equity. ”

György Lindwurm MRICS,  
Cushman & Wakefield

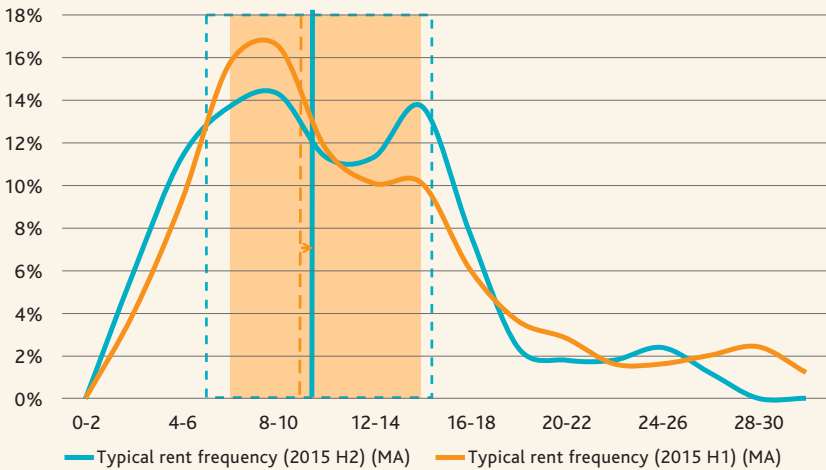
“ Finance from banks is becoming more available. The slated decrease of VAT on residential construction should further stimulate this sector. ”

Hamish White,  
CIB Bank

Distribution of responses in 'rental rates for the top 5 malls' category



Distribution of responses in 'rental rates for mall type retail parks' category





## Logistics sector

Respondents are still cautious when considering rents. The results of the survey show hesitation in Prime out-of-town logistics category, even showing slight decrease here. Conversely, RICS members are more positive about rental prospects for the Small Business Unit logistic category located within city boundaries. Here we

can see a notable increase on the whole compared to the figures in H1 2015. Typical rents stabilised to a solid €3.00 per sq m per month in the case of logistics schemes (€3.25 per sq m per month in H1) and to €4.00 in the case of SBU (€3.75 per sq m per month in H1). As we see more and more transactions in this segment, respondents

have indicated significant improvement in their yield opinions. Yield has stabilised for both categories at 8.6% compared to the 9% reported since the introduction of the survey.

Confidence in the industrial sector is improving.

## 7. Small Business Units

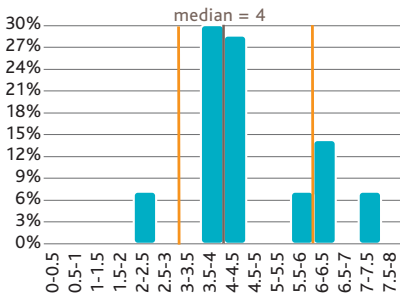
Category A industrial property located within Budapest, close to main arterial road:

- GLA is at least 10,000 sqm (could be in multiple buildings)
- the property is approx. 100% let to multiple tenants
- the average unexpired lease term is at least 3 years

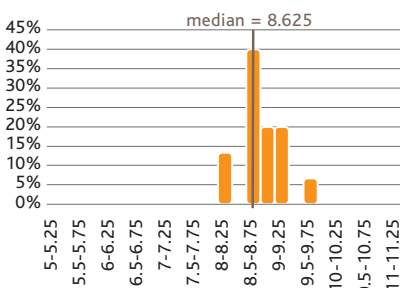
Market headline rental rates for a specific letting transaction:

- 500 sqm warehouse space
- 3-year lease term
- reliable and financially stable tenant

Rent opinions (€/sqm/m)



Yield opinions (%)



## 8. Prime out-of-town logistics centres

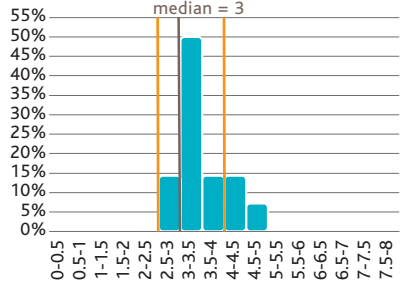
Category A industrial property located approx 5 minutes from a motorway:

- GLA is at least 25,000 sqm (could be in multiple buildings)
- The property is approx. 100% let to multiple tenants
- the average unexpired lease term is at least 4 years

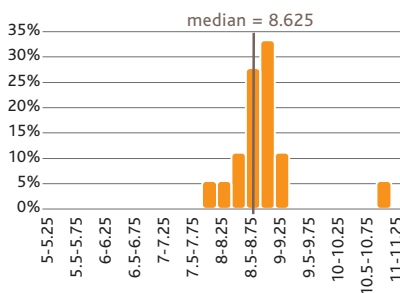
Market headline rental rates for a specific letting transaction:

- 3,000 sqm warehouse space
- 5-year lease term
- strong international tenant

Rent opinions (€/sqm/m)

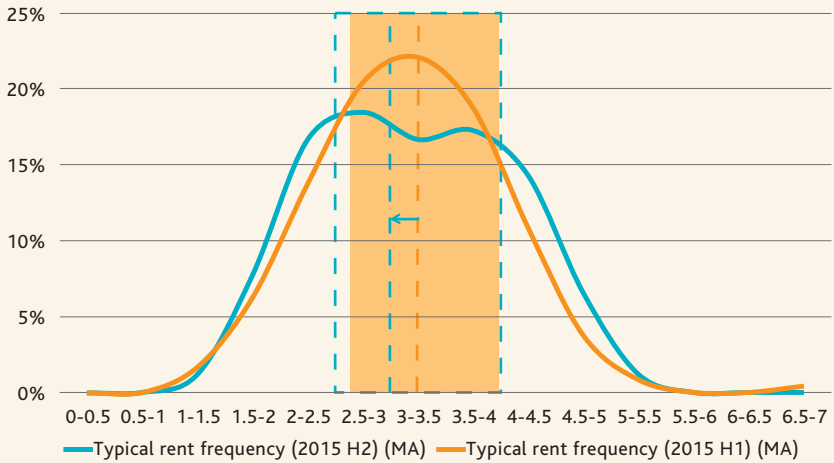


Yield opinions (%)

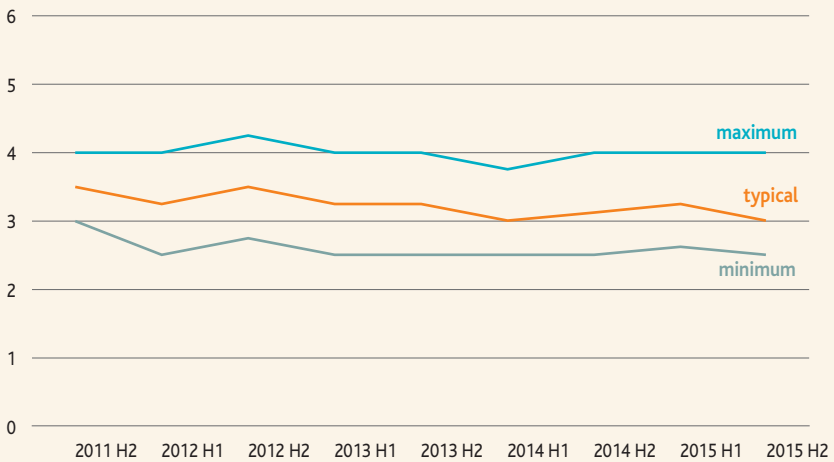




### Distribution of responses in category 'rent of out-of-town logistics buildings'

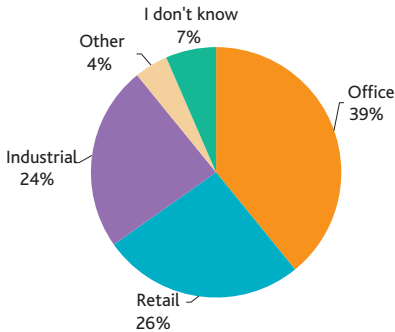


### Out of town logistics, rents (euro / sqm / month)

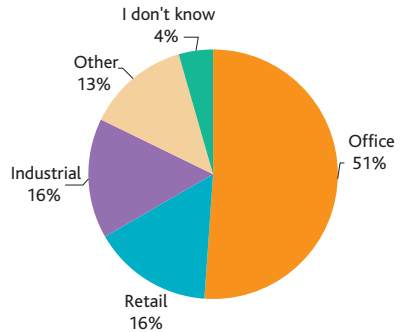


# General sentiment

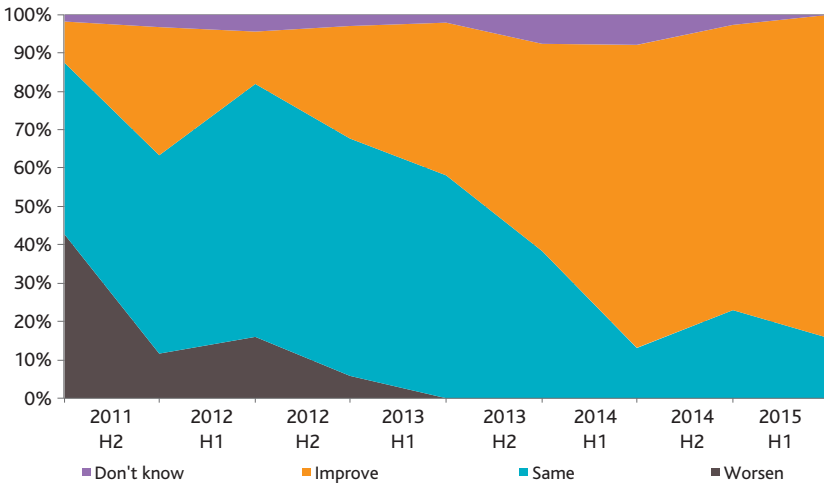
Which commercial segment do you think currently offers the best conditions for an Investor?



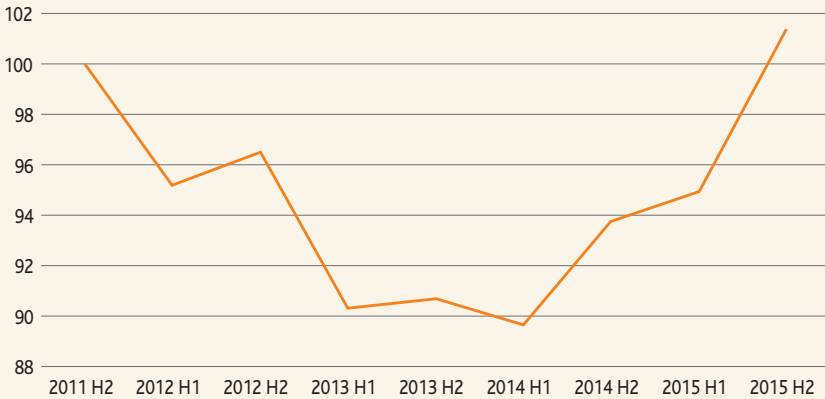
Which commercial segment do you think currently offers the best conditions for a Developer?



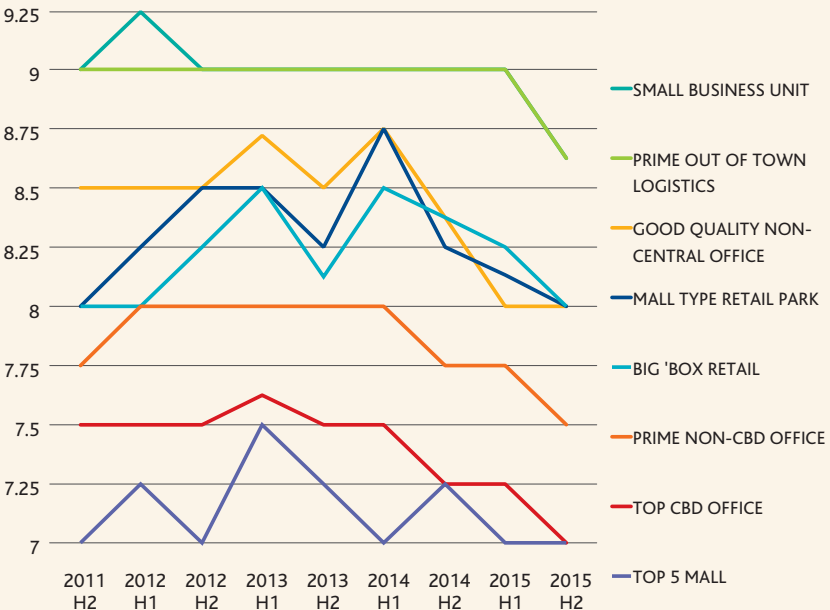
How do you think investment appetite for property will change over the next six months?



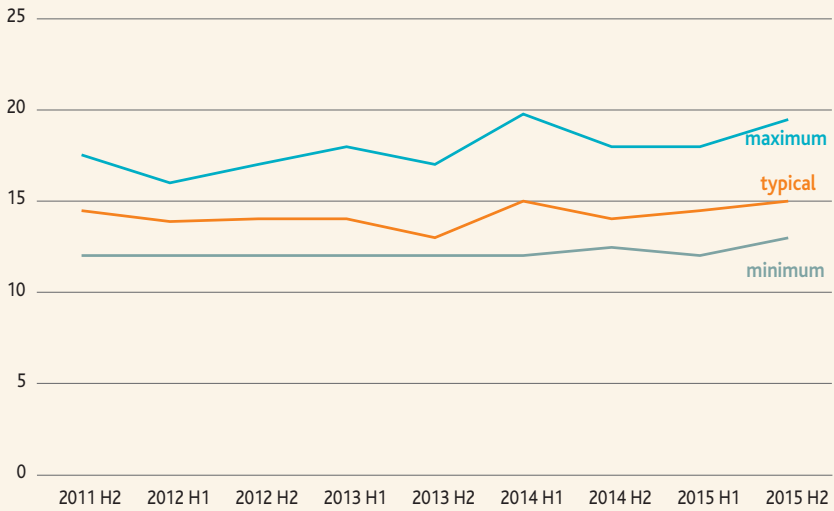
## Budapest Commercial Property Index



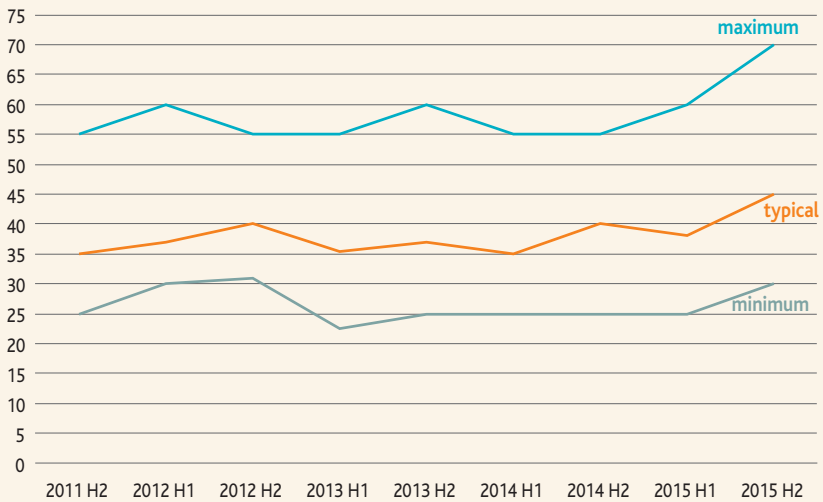
## Median yields (%)



Top CBD offices, rents (euro / sqm / month)



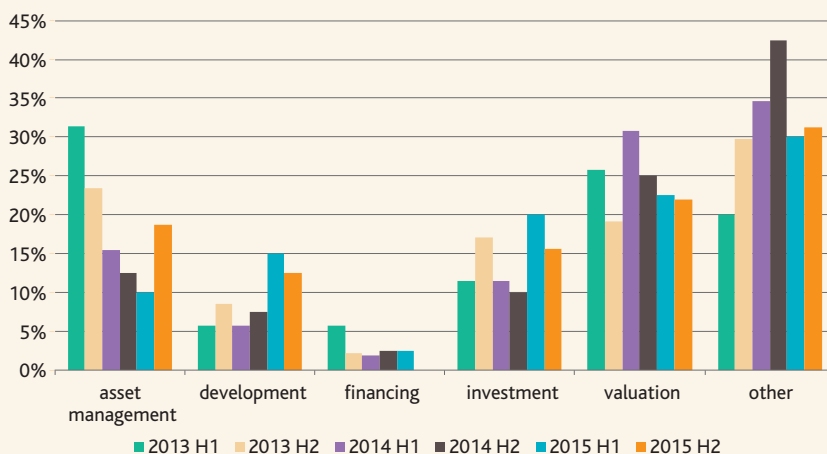
Top 5 malls, rents (euro / sqm / month)



## About the survey

A biannual publication, the Market Sentiment Survey is a collaboration between the Eltinga Centre for Real Estate Research, Portfolio and RICS Hungary. It has been designed to provide a clear picture of how Hungary's senior real estate professionals see current yield and rental rates, as well as general market expectations. The purpose of the Market Sentiment Survey is to improve transparency on the Hungarian real estate market by establishing a benchmark for sentiment, drawing on a wide professional basis. All Hungarian RICS members (both full members and candidates for membership) were invited to fill in a questionnaire prepared by RICS and Portfolio. They were asked for their opinions on current market yields and rental rates, as well as on future market expectations. A total of nearly 40 real estate professionals participated actively in the current Market Sentiment Survey. Of the respondents, 90% were full RICS members and more than 85% have over 10 years of professional experience. The completed surveys indicate that around 50% of respondents work for international companies. Respondents were asked to provide information on their industry and their personal speciality within their organisation. More than 40% of respondents work for consultancy firms. However, developers and asset management professionals also weighed in heavily within the survey. The respondents' fields of specialisation were fairly diverse: valuation, investment, development and asset management were the best represented categories in the survey.

### Ratio of respondents' own work specialisation



# Definitions

**Market Yield:** The current net annual income divided by the purchase price received by the Vendor in a transaction where the asset has been traded at Market Value as of today. Market Value is the estimated amount for which a property should exchange on a certain date; between a willing buyer and a willing seller; in an arm's length transaction; after proper marketing; when both parties had each acted knowledgeably, prudently and without compulsion.

**Market Headline Rent:** The estimated amount for which a property, or part of a property should lease on appropriate lease terms between a willing landlord and a willing tenant; on a certain date; in an arm's length transaction; after proper marketing; when both parties had each acted knowledgeably, prudently and without compulsion.

**Category 'A':** A building that either conforms to all the „hard criteria“ and at least 6 of the „soft criteria“ or certified by Breeam / LEED. Hard criteria: modern cable management, a modern air handling system, adequate provision of secure dedicated parking (at least a parking ratio of 1/75 not applying to refurbishments and a periphery sub-market), a high quality standard finish, 24-hour access and security. Soft criteria: high speed modern lifts, clear ceiling height of at least 2.70 m, prestige/quality reception area, flexible partitioning, high quality architectural design, services in the building / immediate vicinity, power-supply back-up, double-glazed windows / anti-glare glass, restaurant/canteen, quality finish to working areas.

**Budapest Research Forum (BRF):** It was established in 2000 and currently includes the following members: CBRE, Colliers International, Cushman & Wakefield, Eston International, JLL and Robertson Hungary. The aim of BRF is to represent a regulated framework where the leading property advisors can discuss the problems related to the Budapest property market, share and analyse market information.



**RICS**

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worldwide

RICS – the Royal Institution of Chartered Surveyors – was created in 1868 in the United Kingdom. It received a royal charter in 1881. RICS members are known as chartered surveyors, and are recognised by the designation after their name – FRICS (for Fellow of RICS) or MRICS (for Member of RICS).

Today RICS is a global property professional body with 100,000 qualified members in over 100 countries. The key roles of RICS are to regulate and promote the profession, maintain the highest educational and professional standards, protect clients and consumers through a strict code of ethics and provide impartial advice, analysis and guidance.

Chartered surveyors help to sustain the use of land and unlock the long term value of property. They are key to efficient markets in land, property and the environment without which important world economies would not be able to function effectively.

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