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OUTLOOK

THE HUNGARIAN REAL ESTATE MARKETS

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CAPITAL MARKETS

2023 TRENDS IN THE CEE REGION: ADAPTING TO LOCAL CAPITAL DYNAMICS

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INVESTMENT VOLUME CEE

€ 5.02 B

CHANGE YOY

- 55.1 %

INVESTMENT VOLUME HUNGARY

€ 630 M

FOREIGN INVESTMENT

€ 221 M

DOMESTIC INVESTMENT

€ 410 M

CHANGE YOY

- 43 %

2023

In 2023, the CEE markets experienced a significant 55.1% decrease in total commercial real estate investment, totalling € 5.02 billion.

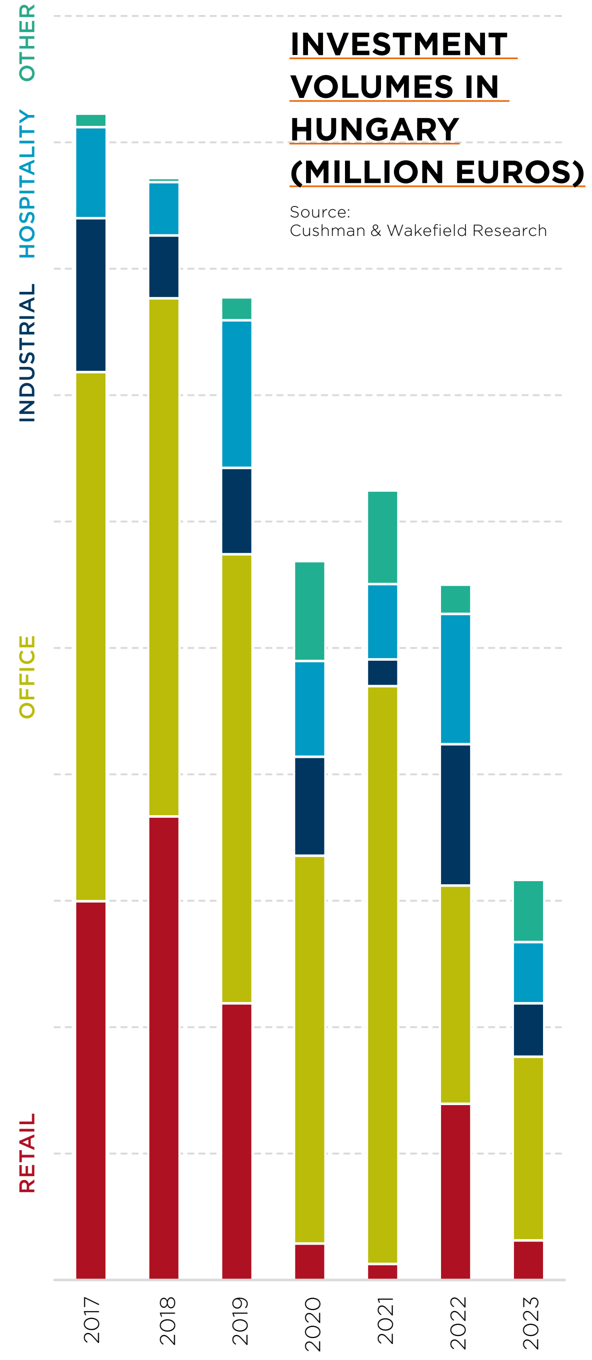
This downturn was primarily fuelled by global economic uncertainties. Office investments led at 32%, followed by retail (27%) and logistics & industrial (27%). Despite an e-commerce surge, logistics and industrial sectors adjusted well to supply chain changes.

Despite an overall contraction in total investment volumes, there was a notable increase in the involvement of local capital, accounting for 40% of the total. Germany, historically a vital contributor to investment growth in the CEE region, faced economic challenges, slipping into a technical recession, and facing a downturn in growth projections. This shift in capital sources, with a rise in local and CEE investments (25%) and a decline in Western capital (21%), underscores the growing influence of regional investors in driving market liquidity and investments.

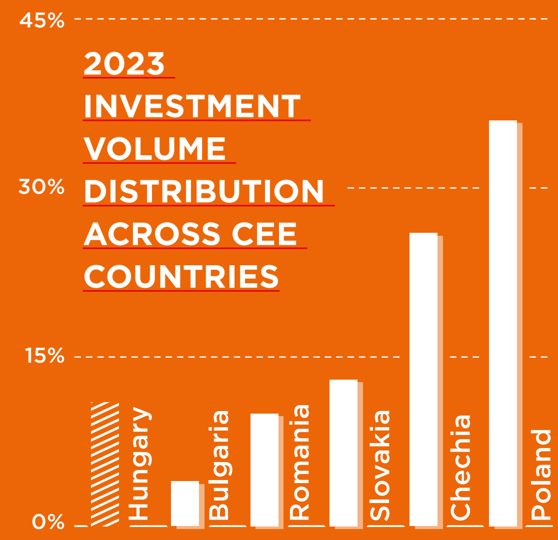
In the current CEE commercial real estate landscape, pricing dynamics are shaped by a combination of muted investment activity and volatile real prices. In addition to the pivotal role of yields, the upward trajectory of rents adds complexity to the pricing equation, creating a nuanced environment for market participants to navigate.
Looking ahead to 2024, growth prospects in the CEE region will depend on real income growth and private consumption, with factors like inflation and wage acceleration playing critical roles in shaping economic outcomes.

INVESTMENT VOLUMES IN HUNGARY (MILLION EUROS)

Source: Cushman & Wakefield Research

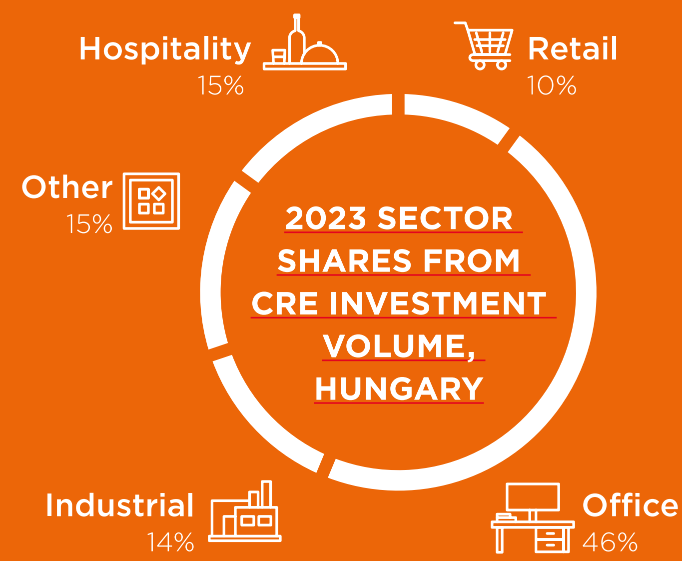


2023 INVESTMENT VOLUME DISTRIBUTION ACROSS CEE COUNTRIES



Source: Cushman & Wakefield Research

2023 SECTOR SHARES FROM CRE INVESTMENT VOLUME, HUNGARY



2023 TRENDS IN HUNGARY:

INVESTMENT DYNAMICS AND THE ASCENDANCE OF DOMESTIC CAPITAL IN 2023

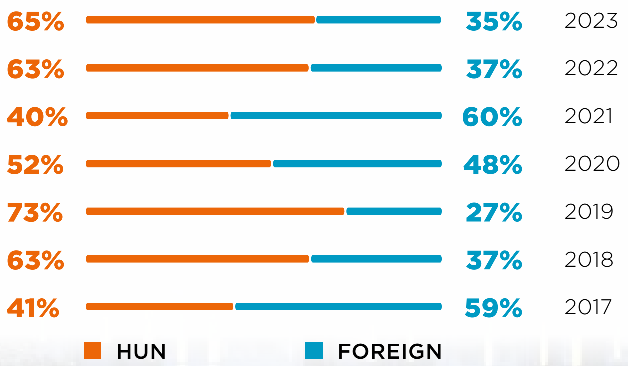
HUNGARY'S MAJOR INVESTMENT TRANSACTIONS IN 2023	*TYPE*	*BUYER*	*SELLER*	*SIZE (SQ M)*	*MARKET*
H2Offices phase 1	Office	Erste Re Fund	Skanska	25,900	Budapest Váci Corridor
Roseville	Office	Hungarian private	Atenor	15,500	Budapest North Buda
Víziváros Office Center	Office	FLE	CA Immo	13,500	Budapest Central Buda
Sofitel	Hotel	Equilor	Indotek	360 rooms	Budapest CBD
Zone Zalaegerszeg	Retail	Appennin	Tidahold Properties	13,500	Zalaegerszeg
Zone Székesfehérvár	Retail	Appennin	Tidahold Properties	9,900	Székesfehérvár
Kanizsa Centrum	Retail	Appennin	Kantrum	20,800	Nagykanizsa
Forest Offices- Debrecen	Office	University of Debrecen	GTC	22,000	Debrecen
Rossmann HQ	Industrial	OTP RE Fund	Panattoni	32,000	Üllő

In 2023, Hungary's total investment volume reached €630 million, a 43% annual decline. The office sector retained its prominence, commanding 46% of the market and contributing €292 million to the annual total. Noteworthy transactions for the year included the H2O and Roseville sales, both concluded in the second half; however, the dynamics of these transactions were strikingly different - with a yield delta exceeding 300 basis points highlighting the impact of buyer motivation and vendor's willingness to trade.

Despite maintaining its share of transactions, the office sector is impacted by the same factors evidenced globally, with many funds (and their lenders) looking to reduce exposure - there are several large-scale opportunities that remain available but unsold.

SHARE OF DOMESTIC & FOREIGN BUYERS IN HUNGARY

Source: Cushman & Wakefield Research



Hospitality claimed a 15% share with 96 million, notable for the sale of Sofitel Budapest Chain Bridge. Industrial-logistics properties represented 14%, exceeding €85 million. Retail investment amounted to €63 million, making up 10% of the total, with 87% of this from retail park transactions.

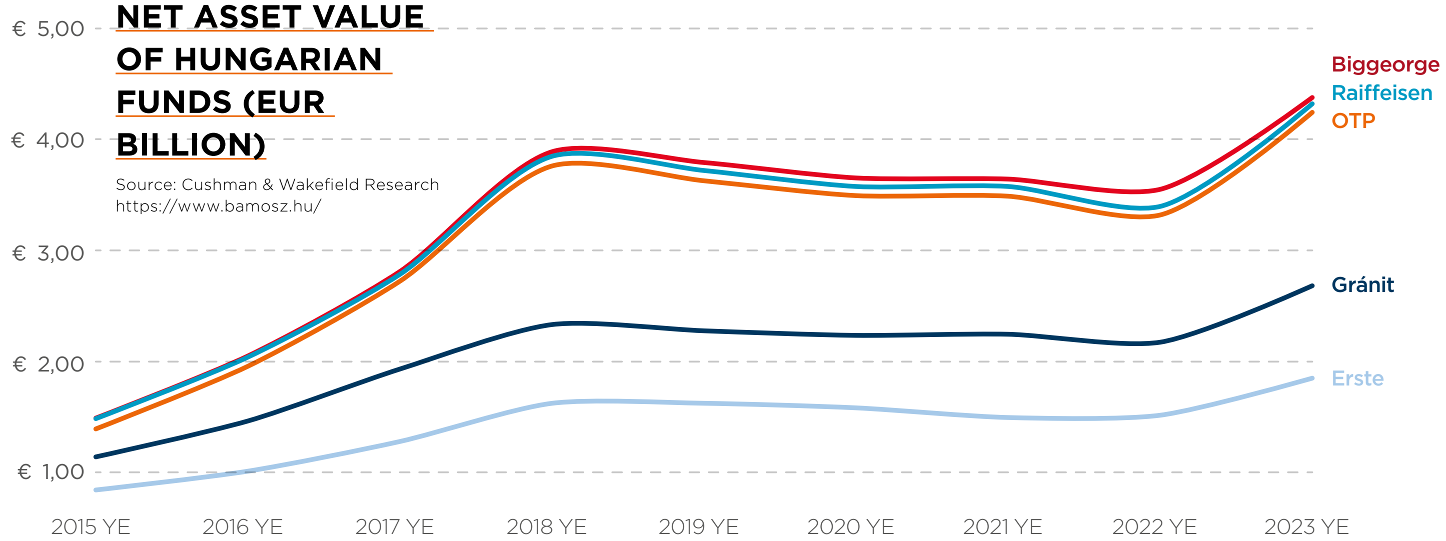
Over 65% of commercial real estate investment in Hungary originated from domestic sources in 2023. This contrasts with the aftermath of the global financial crisis, before which domestic capital was a comparatively minor component - leading to dramatic falls in investment volumes as international funds left the market.

However, the strong dependence on domestic and regional funds poses challenges for the market, indicating a limited investment landscape—a trend observed not only in Hungary but across the entire CEE region.

The net asset value of domestic funds, which had almost doubled from 2015 to 2018, saw a robust 23% increase in 2023, led by OTP, Gránit, and Erste.

NET ASSET VALUE OF HUNGARIAN FUNDS (EUR BILLION)

Source: Cushman & Wakefield Research
https://www.bamosz.hu/



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HUNGARY'S ECONOMY:

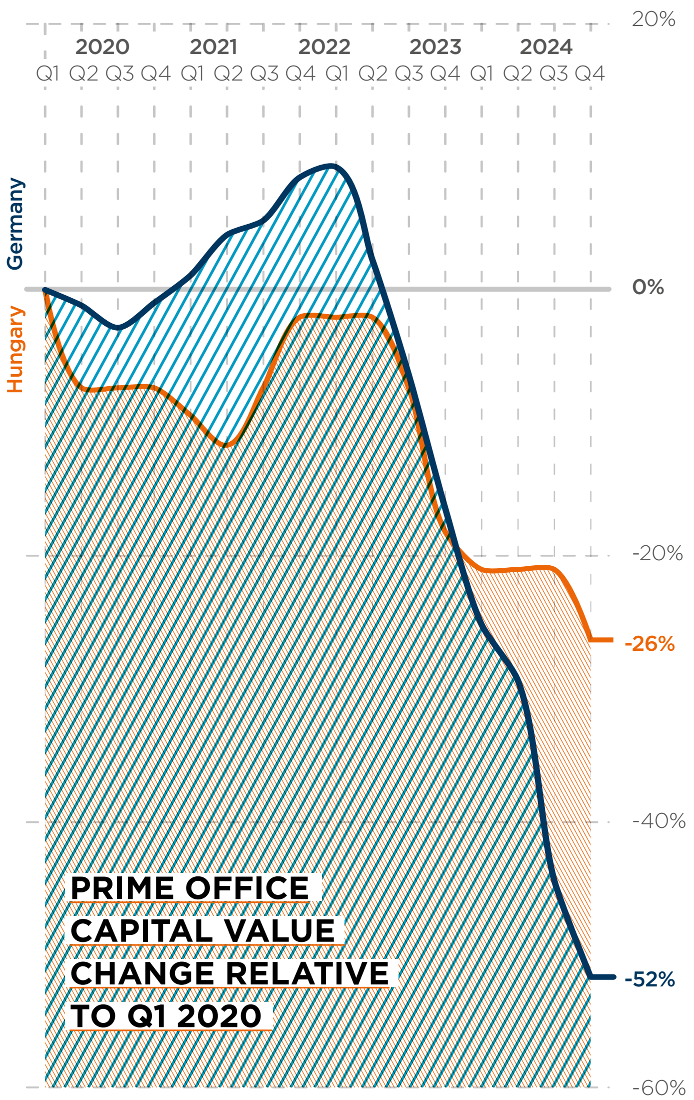
BOUNCING BACK FROM RECESSION IN 2024

Hungary entered recession in Q1 2023, but signs of recovery emerged by the year-end. Disinflation, fuelled by declining energy prices and stringent monetary measures, led Moody's to revise GDP growth forecasts to -0.6% for 2023 and a more optimistic 2.9% for 2024. In December 2023, inflation dropped to single digits, with expectations pointing towards a continued decrease to 4-5% by the end of 2024 and early 2025.

The National Bank of Hungary concluded the year with a third rate cut in December, setting the base interest rate at 10.75%.

The forint has regained stability against the Euro and the US dollar, returning to pre-pandemic levels. While the unemployment rate has seen a slight increase, its further rise is not anticipated due to the resilience of the tight labour force. Looking ahead to 2024 and 2025, the economy may face the lagging effects of a prolonged high-interest rate environment and slowing global demand. Nominal wages continue to rise and have begun increasing in real terms against the backdrop of Hungary's elevated inflation.

PERSISTING PRICING CHALLENGES AND PRIME YIELDS



PRIME OFFICE CAPITAL VALUE CHANGE RELATIVE TO Q1 2020

Source: Cushman & Wakefield Research

Globally, elevated bond yields and increased real estate borrowing costs continue to impact upon property yields. In Hungary, property valuations have adjusted cautiously, reflecting market liquidity constraints. While Germany has experienced significant declines, with capital values dropping by 52% from their recent peak, Hungary's adjustments are reportedly more moderate, with ongoing efforts to establish pricing consensus. This in itself raises challenges as volume investors focus on the more liquid core markets that offer larger price discounts rather than markets that have shown less dramatic declines in pricing.

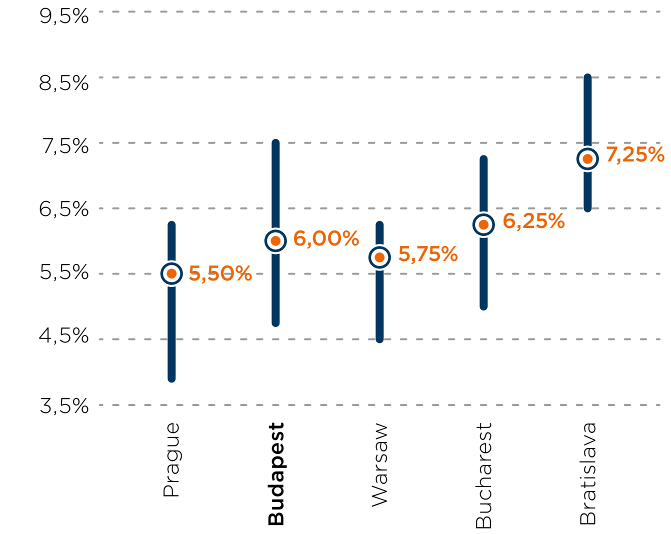
Core continental markets have witnessed rising yields, particularly in offices and logistics sector, while retail sectors remain relatively stable.

PRIME YIELDS CEE

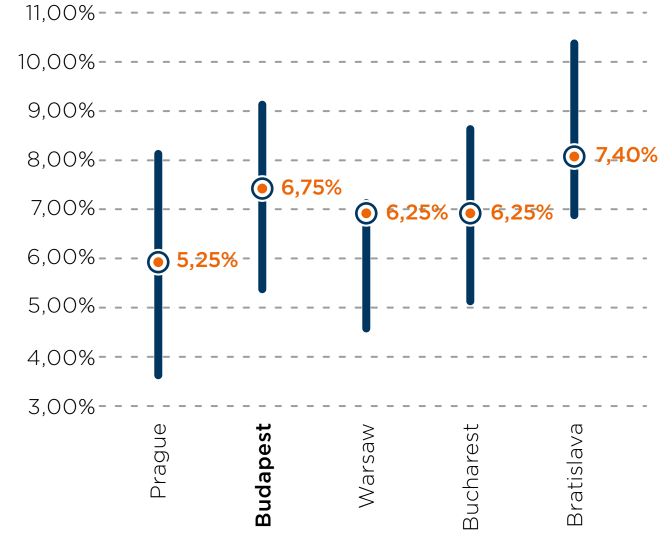
Source: Cushman & Wakefield Research

10 yr movement | Current yield level (%)

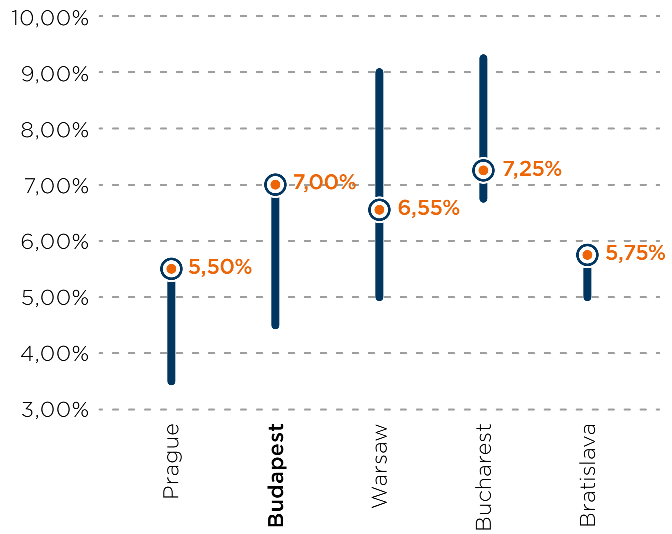
PRIME OFFICE YIELDS, Q4 2024



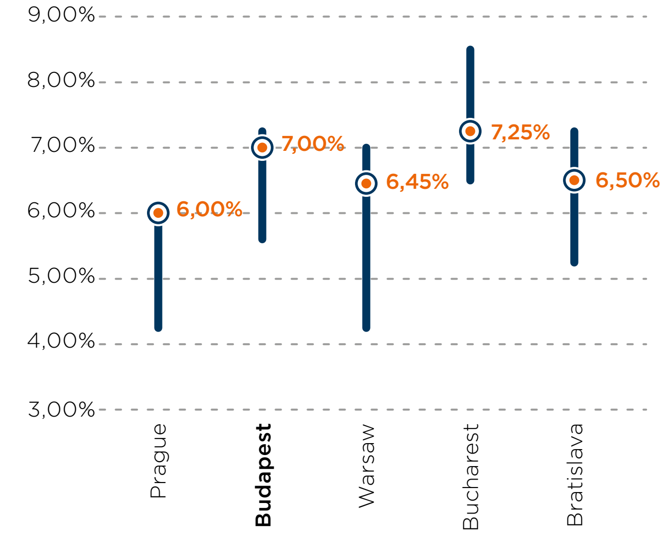
PRIME LOGISTICS YIELDS, Q4 2023



PRIME HIGH STREET YIELDS, Q4 2023



PRIME SHOPPING CENTRE YIELDS, Q4 2023



FURTHER YIELD ADJUSTMENTS ARE ANTICIPATED IN HUNGARY IN 2024.

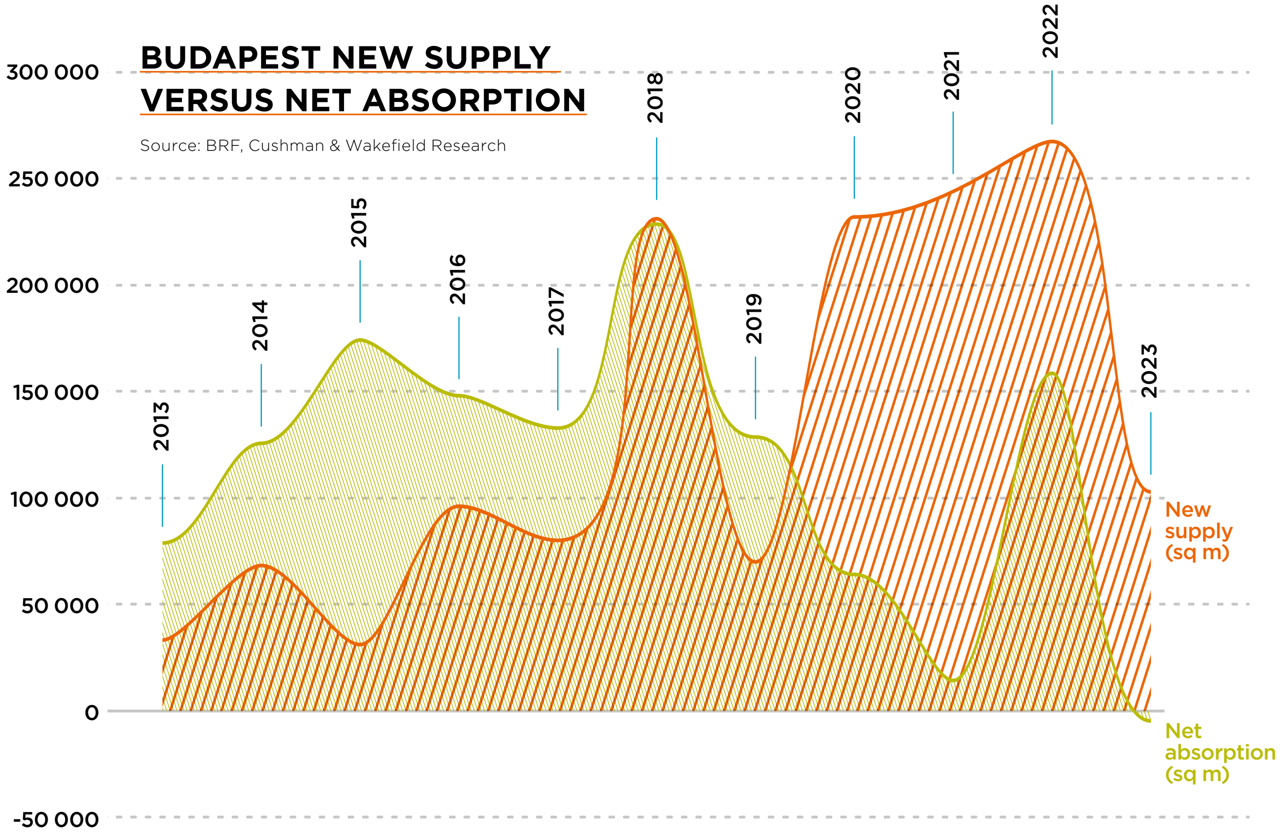
OFFICES

BUDAPEST'S OFFICE MARKET: RESILIENCE AMIDST ECONOMIC SHIFTS AND CHANGING SPACE NEEDS

Budapest's office market has exhibited resilience and growth since the pandemic-induced disruption of 2020. 2023 saw a 19% increase in 'official' take-up, following earlier increases of 10% in 2021 and 7% in 2022. This trend underscores Budapest's reputation as a thriving regional business hub and is in contrast to the trend across European markets, where a 16% decrease in take-up is expected for 2023 due to the ongoing evaluation of the balance between in-office and remote work arrangements. Budapest's resilience can be attributed to factors such as its appeal as a cost-effective and strategically situated business hub. Nonetheless, despite this positive momentum, the growth in demand remains slightly below the 10-year average.

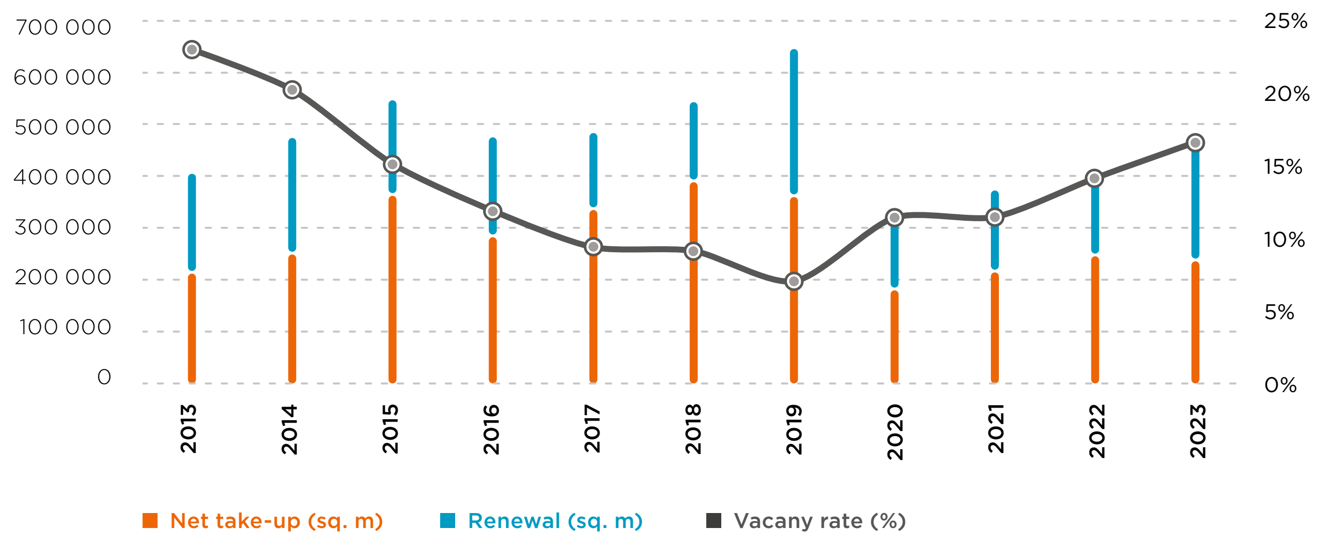
BUDAPEST NEW SUPPLY VERSUS NET ABSORPTION

Source: BRF, Cushman & Wakefield Research



BUDAPEST DEMAND VERSUS VACANCY RATE

Source: BRF, Cushman & Wakefield Research



Despite prevailing global economic uncertainties, Budapest's office market demonstrated a remarkable 21% surge in annual net take-up (which accounts for all take-up excluding renewals), underscoring businesses' commitment to improving their physical work environments. Concurrently, renewals have become more prevalent, mirroring trends observed in other European markets as companies require additional time to adjust to evolving work arrangements.

"THE OFFICE MARKET HAS EXHIBITED RESILIENCE AND GROWTH

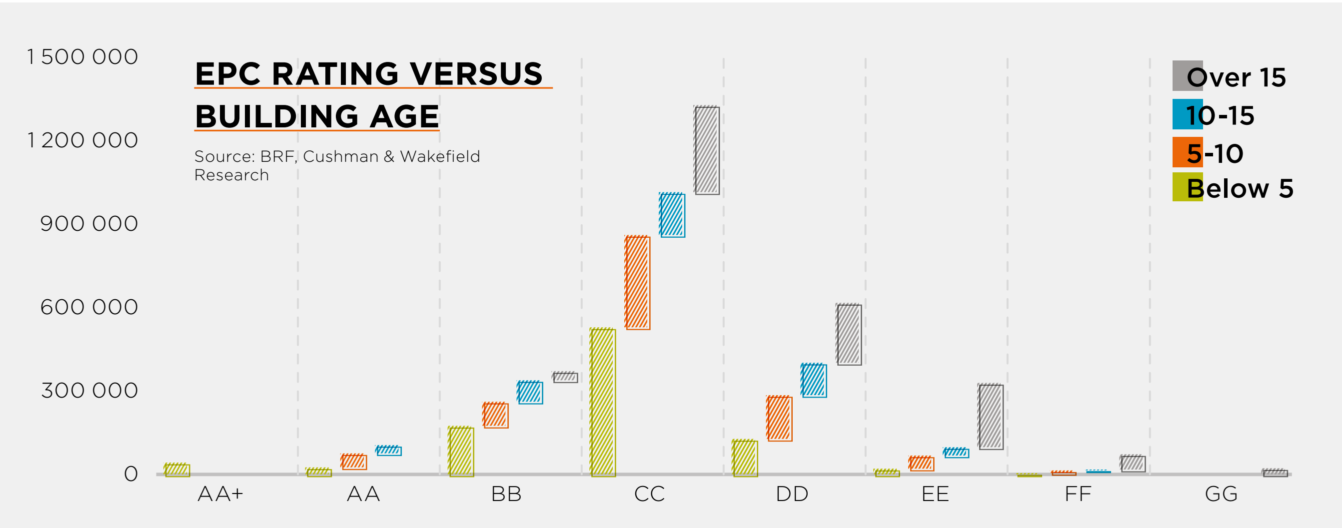
2023 saw Budapest witness new supply of 103,000 sq. m, a figure slightly below the ten-year average; however, substantial completions in 2020 and 2022 contributed to the delivery of nearly 650,000 sq. m of new office space in the last four years. With net take-up substantially below pre-pandemic levels, net absorption has turned slightly negative for the first time in a decade, resulting in a vacancy rate of 13.3% by the end of the year, 2.7 percentage points above the 10-year average.

Given the low supply delivered for a protracted period after the Global Financial Crisis until 2018, new office spaces (less than 5 years old) constitute 30% of the total stock. Notably, the median vacancy rate for buildings over than 15 years has reached 20%, nearly double that of those younger than 15 years at around 11%. The high vacancy rate of new stock is a result of the large amount of new supply delivered within a short time frame combined with the uncertainties and reserved decision making of occupiers following the impacts of the pandemic. Given the amenities and quality of the new product, the market advantage of the new stock should become even more apparent.

There is the growing focus on the quality and sustainability of office buildings, particularly in terms of Environmental, Social, and Governance (ESG) factors. Buildings with prime accessibility and robust ESG features will attract the highest demand, indicating a clear division within the market. Looking ahead, ESG considerations are anticipated to transition from being an exception to becoming the norm, reflecting broader environmental and social trends in the real estate sector.

THE REFURBISHMENT PHENOMENON:

RETHINKING OFFICE SPACE IN BUDAPEST



Proactive measures are crucial to address the potential obsolescence of over 1 million sq. m of office inventory by the decade's end. Approximately 37% of the city's office stock lacks any green certification, with BREEAM and LEED certifications being the most prevalent, covering 1.8 million and 0.4 million sq. m, respectively. Green certifications are increasingly becoming standard for new office buildings, and this trend is expected to continue with future deliveries.

Energy performance is also gaining importance, although challenges related to data transparency persist. Presently, 38% of offices are rated CC, falling below the target for new developments. Only 11% achieve an EPC rating of BB, and a mere 4% reach the AA category. However, the pipeline, encompassing both new developments and refurbishment projects, leans towards higher ratings, indicating potential improvements in the future.

As the prevalence of green buildings increases globally, tenants in Budapest are becoming less inclined to pay premiums for environmental features. However, escalating legislation is raising sustainability expectations, requiring upgrades in 'brown' buildings to meet new standards and enhance competitiveness. Investment in ESG is transitioning from being optional to standard practice, with the popularity of 'green loans' surging to support sustainable projects. These loans primarily fund real estate initiatives aimed at advancing environmental objectives, with lower margins expected in most cases. According to research by Moody's[1], sustainable project finance loans are deemed less risky compared to non-sustainable projects.

In conclusion, there is a growing recognition in Budapest that the potential consequences of inaction regarding sustainability in office buildings may outweigh the upfront investment required.

[1] Moody's finds evidence sustainable projects are less risky (globalcapital.com)

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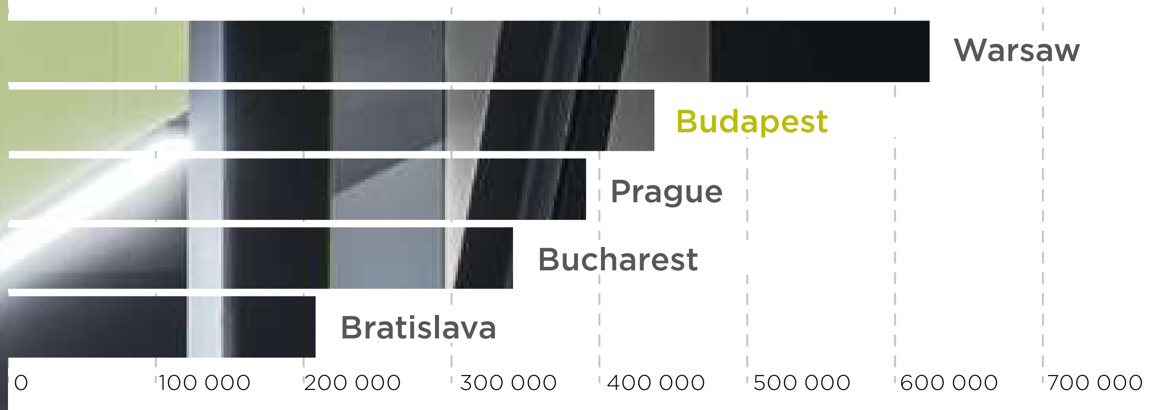
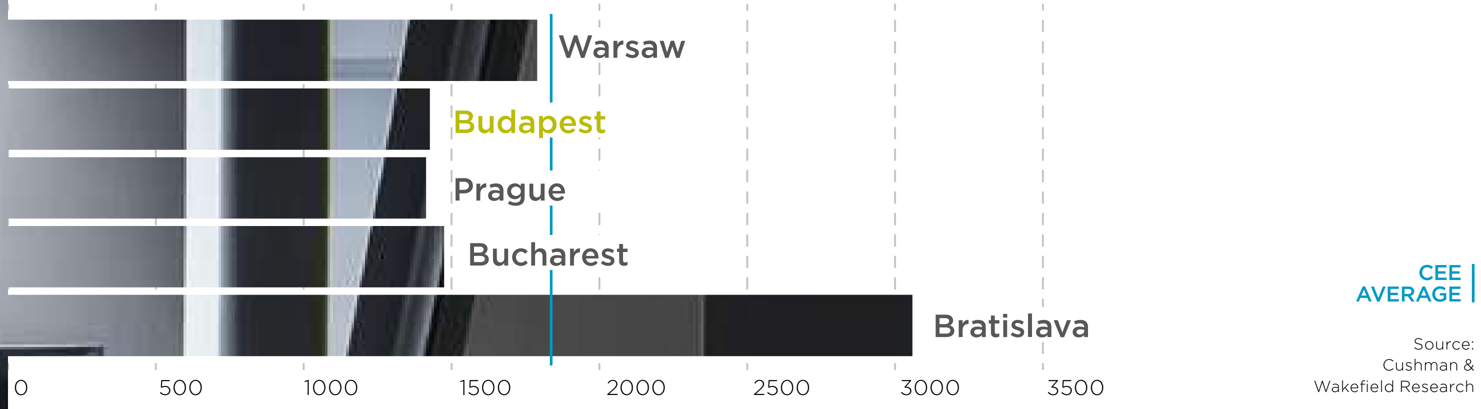
TOTAL OFFICE STOCK IN CEE CAPITAL CITIES -YE 2023 (SQ M)



STOCK PER METRO POPULATION IN CEE CAPITAL CITIES - YE 2023

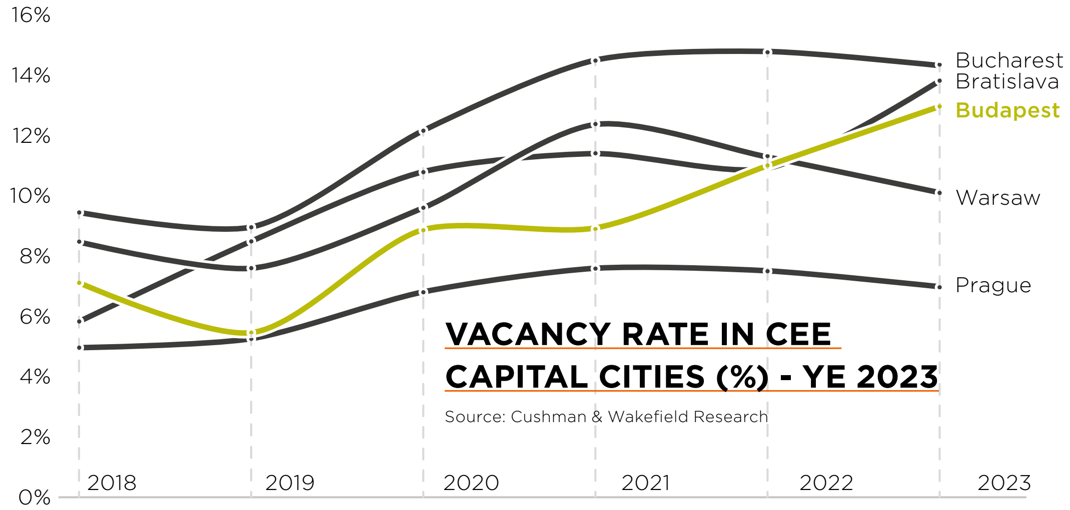


Source: Cushman & Wakefield Research

BUDAPEST'S OFFICE MARKET COMPARED TO CEE CAPITAL CITIES

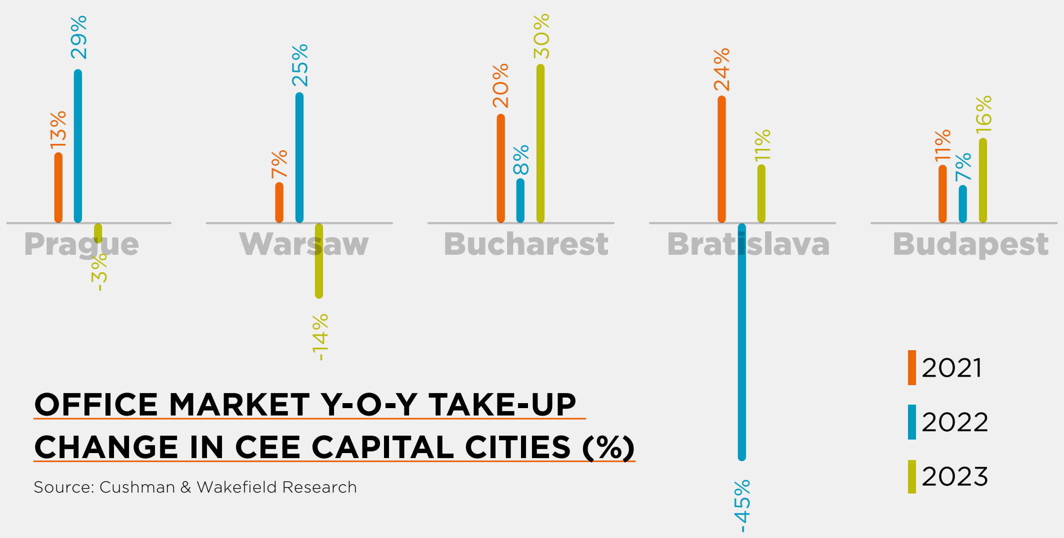
With 4.37 million sq. m of office space and an annual demand averaging around 440,000 sq. m in recent years, Budapest's office market ranks among Central Europe's largest, second only to Warsaw. However, its per capita office space is the region's second lowest, highlighting considerable growth potential and an evident undersupply despite recent new deliveries.

Budapest consistently achieves the second-highest take-up of office space within the capital cities of the region. Whilst take-up increase was second only to Bucharest, the city's vacancy rate saw an uptick in 2023 due to new office deliveries, positioning it above both Prague and Warsaw.



VACANCY RATE IN CEE CAPITAL CITIES (%) - YE 2023

Source: Cushman & Wakefield Research



OFFICE MARKET Y-O-Y TAKE-UP CHANGE IN CEE CAPITAL CITIES (%)

Source: Cushman & Wakefield Research

BUDAPEST CONSISTENTLY RANKS AS THE SECOND-HIGHEST CAPITAL CITY IN TERMS OF OFFICE SPACE TAKE-UP WITHIN THE REGION

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BUDAPEST: A CENTRAL HUB FOR NEARSHORE BSC BUSINESSES

Hungary remains a prominent player in nearshore outsourcing, with Budapest serving as a preferred destination for international firms aiming to streamline costs through Business Services Centres (BSCs). The sector boasts over 1,000,000 employees across 201 SSCs, predominantly located in Budapest[2].

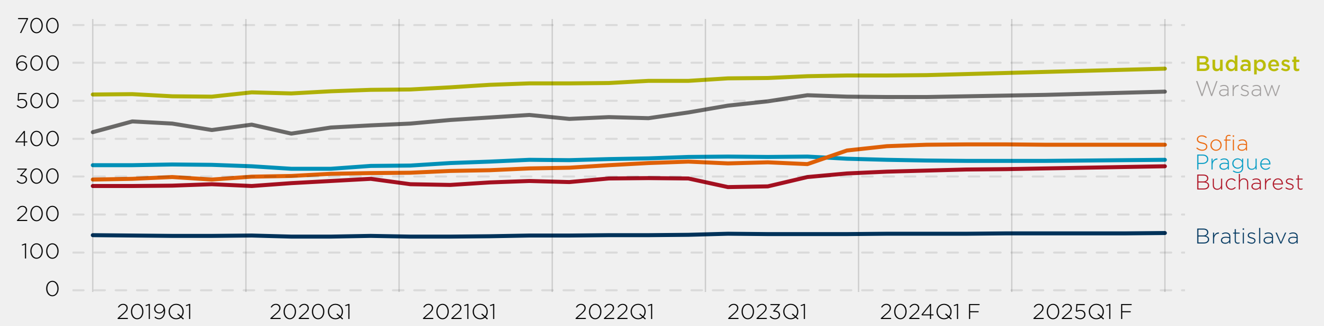
Projections indicate continued expansion, especially in IT and finance sectors. The HIPA[3] survey offers valuable insights into Hungary's BSC landscape, uncovering noteworthy trends. A significant portion of respondents are exploring expansion opportunities within Hungary, with a particular interest in countryside locations, signalling a broader trend towards decentralisation.

The sector is characterized by maturity, with a strong emphasis on global service provision, especially in core areas such as Finance, Accounting, and ICT, where innovation is crucial for maintaining competitiveness.

Notably, a majority of BSCs are now serving global and European markets, underscoring the sector's advanced stage of development. The pandemic has accelerated several permanent changes, including the widespread adoption of hybrid work models, which have brought about efficiency gains but also pose challenges in terms of remote team management.

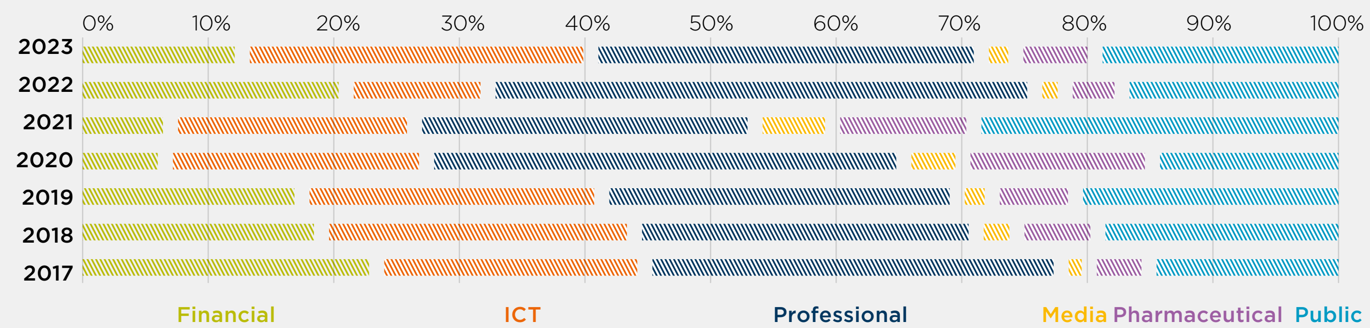
OFFICE EMPLOYMENT IN CEE CAPITAL CITIES, THOUSAND

Source: Moody's Analytics, Cushman & Wakefield Research



DEMAND DISTRIBUTION BY OCCUPIER SECTOR (%)

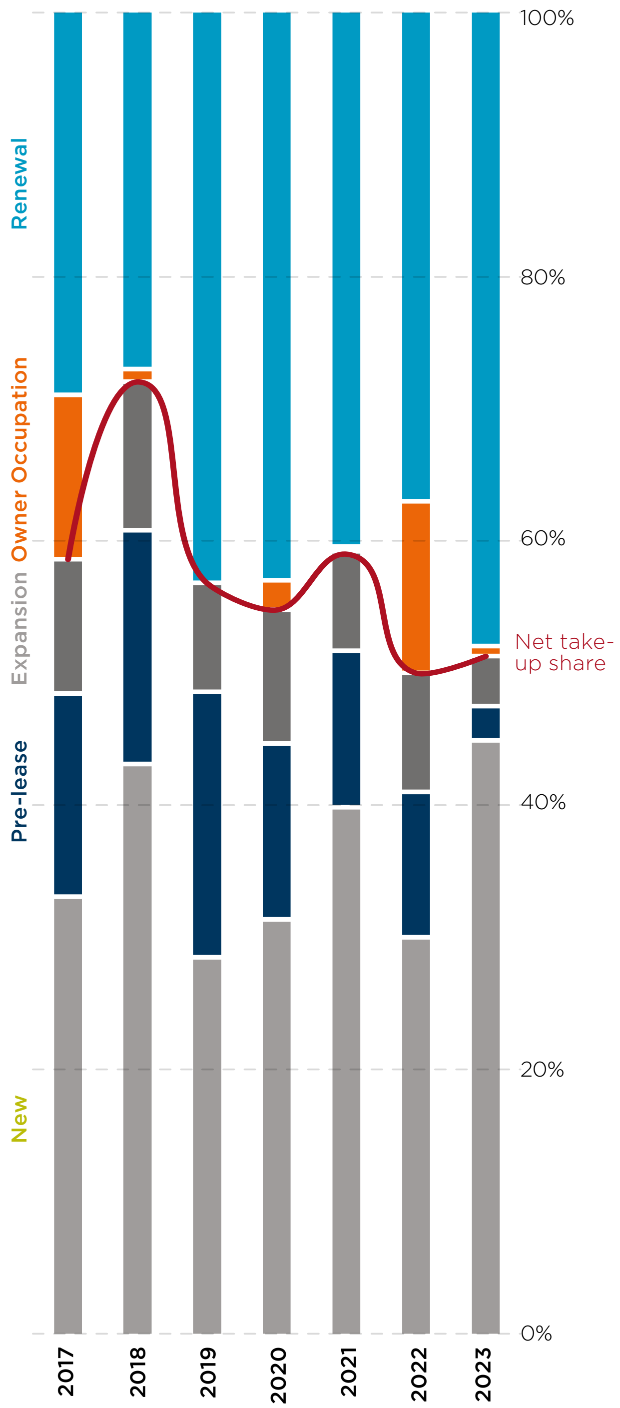
Source: BRF, Cushman & Wakefield Research



[2] HIPA_ihh_twopager_bsc_2023_0111_PRESS_honlap
[3] Insights - Hungarian Investment Promotion Agency (hipa.hu)

DISTRIBUTION OF OCCUPIER DEMAND (%)

Source: BRF, Cushman & Wakefield Research



Overall, these findings underscore Hungary's growing importance in the global BSC landscape.

Budapest's economic growth, driven by a robust BSC sector, positions it favourably against its Central European counterparts, with continued growth expected in the coming years. According to Moody's Analytics, Budapest's economic growth has consistently outpaced its Central European counterparts, largely due to its thriving BSC sector. Key industries such as finance, accounting, insurance, and business consultancy offer ample employment opportunities. The ICT sector has emerged as the city's largest industry, showcasing resilience even in challenging economic conditions. Budapest has boasted the highest office employment in the region since 2015, a trend expected to persist in the years ahead.

This trend is reflected in the demand dynamics of the Budapest office market, where the ICT, financial, and professional sectors consistently comprise a stable 72% share of total demand, despite fluctuations in their proportions over time. In 2023, this translated to a demand of 220,000 square meters, in line with the five-year average. Notably, in the same year, numerous BSCs renewed contracts covering a total of 27,000 square meters. Among these sectors, the Professional sector remained the largest, with contracts signed for 96,800 square meters, followed closely by the ICT sector, which signed contracts for 86,400 square meters.

In the recent past, a scarcity of new supply presented obstacles for businesses seeking relocation, resulting in a reliance on pre-leasing arrangements. However, the recent emergence of new office stock has significantly alleviated this pressure. The proportion of lease renewals, which peaked at 48% in 2023, is anticipated to decrease gradually.

Recent data suggests a shift in tenant preferences towards newer office spaces, particularly those less than 5 years old. Nevertheless, older, non-refurbished buildings continue to be favoured due to their perceived pricing advantage. Part of this decline in demand may be attributable to the non-capture of some data though some landlords not publicising “in-house” renewals and the reluctance of some owners to declare all deals. This nuanced relationship between building age and tenant relocation decisions is reflected in the demand data for 2023 in Budapest’s office market.

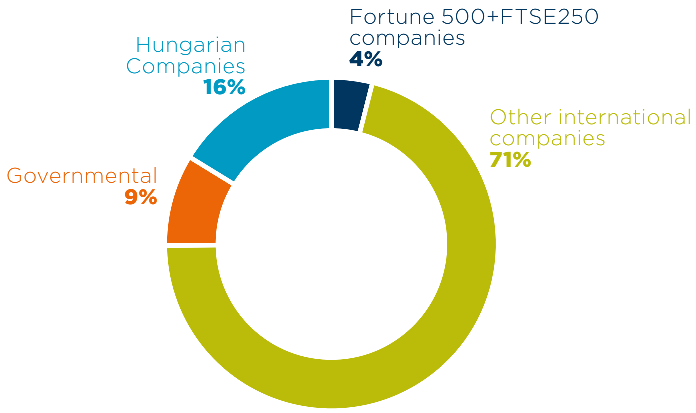
Notable relocation deals in 2023 reinforce this trend. DTSYSO secured 10,600 sq. m of space in the New Telecom HQ, while an airline company leased 8,100 sq. m in Millennium I, and Lightware opted for Siemens HQ with 7,000 sq. m. Conversely, new office spaces have also attracted tenants, such as H2O and the fully refurbished BIF tower, totalling 5,000 sq. m and 6,700 sq. m, respectively.

As ESG considerations gain prominence in leasing decisions, tenants are expected to increasingly favour new or refurbished buildings. This emerging trend signals a significant shift in the dynamics of Budapest’s office market in the coming years.

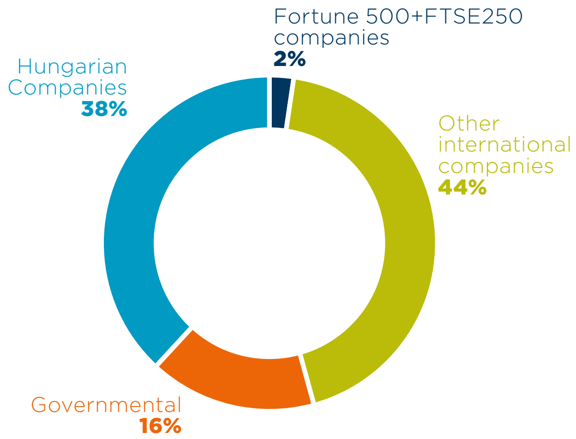
TENANTS’ RELOCATION PREFERENCES: BUILDING AGE TRENDS 2021-2023 (SQ M SHARE)

Source: BRF, Cushman & Wakefield Research

Schemes under 5 years



Schemes 15+ (Non-refurbished)



BUDAPEST’S ECONOMIC GROWTH HAS CONSISTENTLY OUTPACED ITS CENTRAL EUROPEAN COUNTERPARTS

EMERGING DOMINANCE OF REFURBISHMENT PROJECTS IN NEW SUPPLY

The volume of new supply delivered to the market in 2023 decreased compared to the previous year but remained above the post-GFC average. In total, 102,800 sq. m of new supply was added. Notable projects included:

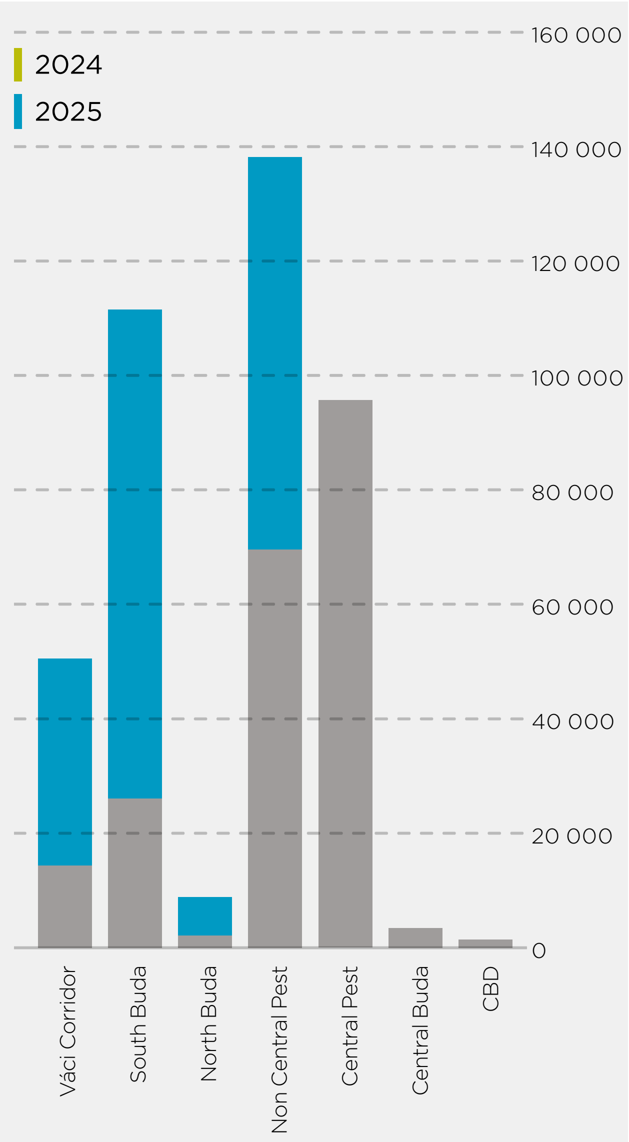
PROPERTY	SUBMARKET	GLA (SQ. M)	DEVELOPER
BEM Center	Central Buda	25 320	Property Market
Liberty South Wing	Non-Central Pest	9,720	Wing
Homework	Central Buda	3,740	Codic
RoseVille	North Buda	15 535	Atenor
BudaPart Downtown	South Buda	8 425	Property Market
F99	South Buda	14 100	Proform
Corvin Innovation Campus (Corvin 7)	Central Pest	17 525	Futureal
BIF Tower	Non-Central Pest	8 530	BIF

There is currently 410,000 sq. m of office space under construction, and scheduled for completion by 2024/2025. However, the absence of announced projects for 2026 suggests caution and perhaps a shift towards 'brown' redevelopment opportunities.

A noteworthy trend is the concentration of development activity in the Non-Central Pest and South Buda areas. Traditionally, the Váci corridor was a top-ranked location, but it accounts for only 12% of developments under construction.

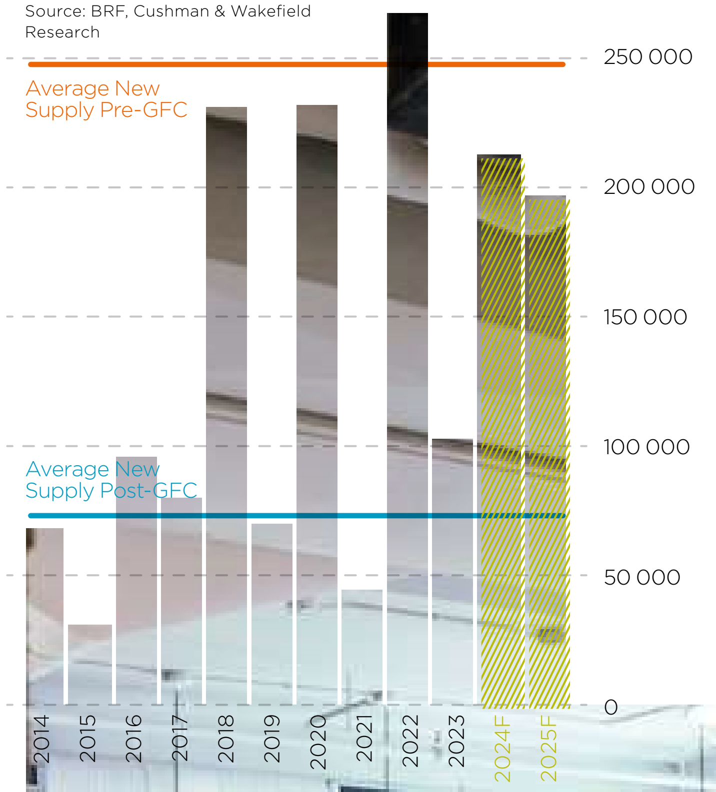
OFFICE PIPELINE U/C

Source: Cushman & Wakefield Research



ANNUAL NEW SUPPLY IN THE PERIOD OF 2019-2025 F

Source: BRF, Cushman & Wakefield Research



The table below summarizes the pipeline projects exceeding 10,000 sq. m for 2024/2025. Whilst predominantly new developments, there is a noticeable emergence of refurbishment schemes, particularly focused on inner Pest and prestigious areas of Buda.

NEW DEVELOPMENTS

PROPERTY	SUBMARKET	GLA (SQ. M.)	DELIVERY YEAR	DEVELOPER
BUDAPART CORSO	South Buda	38,500	2025	Property Market
CENTERPOINT III	Váci Corridorww	36,100	2025	GTC
ZUGLÓ CITY CENTRE O2, O3	Non-Central Pest	36,000	2025	Zugló-Városközpont
DÜRER PARK PHASE I.	Central Pest	34,400	2024	Property Market
ZUGLÓ CITY CENTRE O5, O6	Non-Central Pest	30,000	2025	Zugló-Városközpont
BUDAPART CENTRAL	South Buda	25,000	2025	Property Market
BUDAPART HARBOR	South Buda	22,000	2025	Property Market
LIBERTY NORTH WING	Non-Central Pest	19,800	2024	WING
ZUGLÓ CITY CENTRE O1	Non-Central Pest	17,800	2024	Zugló-Városközpont
RICHTER NEW HQ	Non-Central Pest	16,600	2024	Richter
BAKERSTREET P1	South Buda	16,600	2024	Atenor
MILLENNIUM GARDENS P2	Central Pest	16,500	2024	Trigránit
DÜRER PARK PHASE II.	Central Pest	16,000	2024	Property Market
ARENA BUSINESS CAMPUS B	Non-Central Pest	15,400	2024	Atenor
CORVIN INNOVATION CAMPUS PHASE II	Central Pest	14,300	2024	Futureal
MADARÁSZ IV	Váci Corridor	11,100	2024	Proform

REFURBISHMENTS

PROPERTY	SUBMARKET	GLA (SQ. M.)	DELIVERY YEAR	DEVELOPER
P59 OFFICE PARK - B4	North Buda	5,400	2025	GTC
LIGET CENTER AUDITORIUM	Central Pest	3,200	2024	WING
P59 OFFICE PARK – B3	North Buda	2,200	2024	GTC
ANDRÁSSY 40-42	CBD	1,400	2025	GTC
P59 OFFICE PARK- B5	North Buda	1,250	2025	GTC

OCCUPIER'S PERSPECTIVE

Budapest's office occupiers are witnessing a gradual return to traditional office utilisation as remote work peaked in 2021 with only 28% of employees opting for it. This preference for in-person collaboration underscores the enduring value of face-to-face interaction in the workplace.

The HIPA survey[4] offers valuable insights into the perspective of occupiers within Hungary's BSC sector. Among the key findings, 60% of respondents are maintaining their current office layout strategy, indicating a level of stability in their approach. Additionally, 13% of respondents plan to expand their workforce within their existing office space, reflecting a positive outlook for growth.

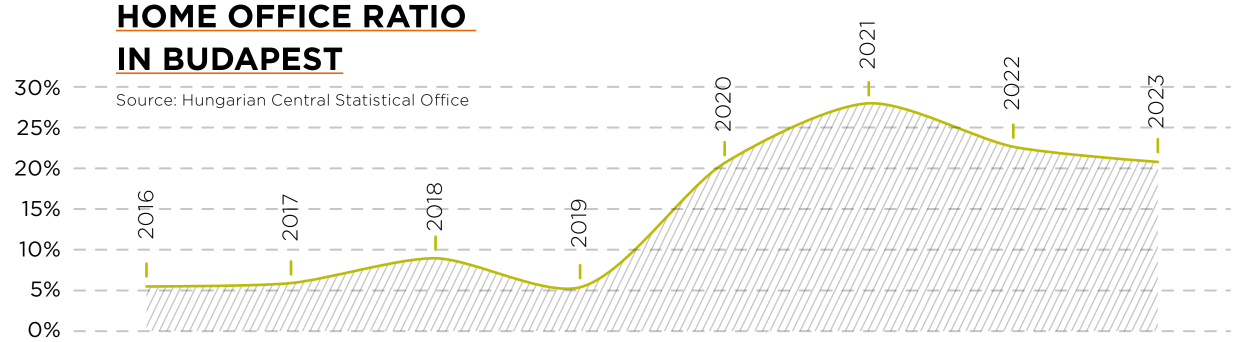
Despite ongoing considerations to optimise office space, the impact of home office trends on layout strategies remains minimal. However, a significant portion (40%) of respondents are considering reducing their occupied office space. While the timing and extent of these reductions are yet to be defined, it suggests a potential shift in office space requirements among BSCs in Hungary.

Prime headline rents have shown consistent year-on-year growth across most submarkets, while lease periods have remained stable. Looking ahead, we anticipate these rents to stabilize. Lease in new developments increasingly provide hand back options, while break options are more prevalent in second-generation projects. Despite expectations, there has not been a notable surge in subletting, and such trends are not expected to materialize in the near future.

SUBMARKET	PRIME RENT AS AT DEC-23 (EURO / SQ. M / MONTH)	Y/Y GROWTH	3YR CAGR	5YR CAGR	10YR CAGR
CBD	25.0	2.0%	0.0%	0.4%	1.8%
CENTRAL BUDA	22.0	10.0%	6.9%	5.9%	3.9%
CENTRAL PEST	18.0	0.0%	1.9%	1.8%	1.5%
VÁCI CORRIDOR	18.5	2.8%	1.9%	3.6%	2.6%
NC BUDA NORTH	18.5	5.7%	6.1%	5.0%	3.2%
NC PEST	16.0	3.2%	2.2%	2.7%	2.1%
NC BUDA SOUTH	18.0	0.0%	1.9%	3.7%	3.7%
PERIPHERY	11.5	0.0%	0.7%	1.8%	1.4%

HOME OFFICE RATIO IN BUDAPEST

Source: Hungarian Central Statistical Office



[4] Insights - Hungarian Investment Promotion Agency (hipa.hu)

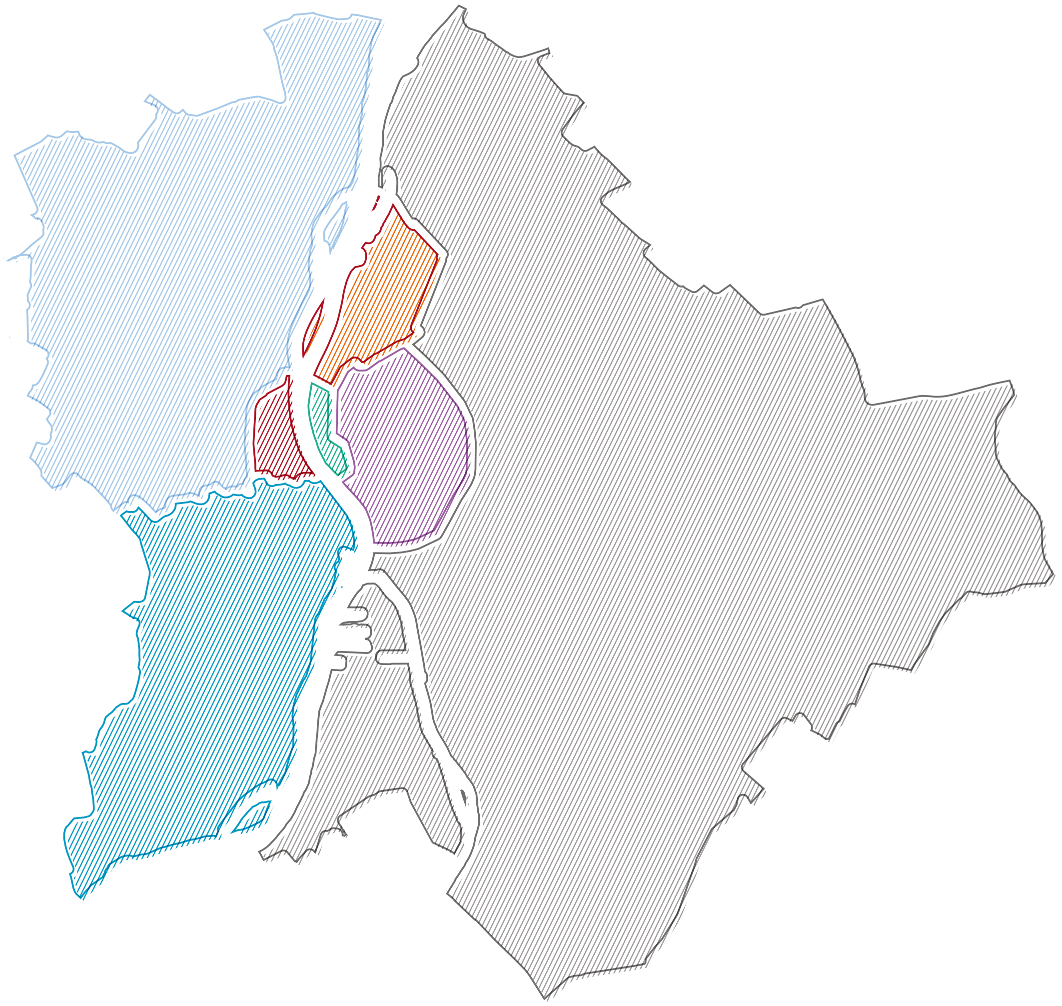
BUDAPEST SUBMARKETS MAP

Non-Central Buda North
Primarily a high-end residential area, Districts III, II, XII has delivered isolated buildings in addition to small clusters and even a campus development in the form of the IT focussed Graphisoft Park.

Central Buda
As with the CBD, this is a historic core and there are limited institutional grade buildings or opportunities to develop in this zone. This area is popular amongst SME's.

Non-Central Buda South
This area saw a lot of development, as developers sought to create an alternative back-office destination to Váci corridor. Much of the area has poorer communication links compared to the Váci corridor, although it benefits from the substantial District XI workforce and central locations benefit from proximity to universities.

Periphery
Comprising buildings outside the city borders (practically Budaörs, Törökbálint, Biatorbágy, Vecsés), these areas were delivered pre-crisis and are not popular amongst occupiers.



Váci út corridor
This is Budapest's "office corridor" and has seen substantial development having available sites, work good communication links through the metro line, Danube bridges and the substantial Váci út. It is the primary "back office" location for international tenants.

CBD
A historically protected area; there are few class A products meaning the CBD is effectively the smallest in the region, and there are few opportunities to develop further. Popular amongst SME's and professional service providers.

Central Pest
Covering a large area to the east and south of the CBD, Central Pest has seen development in consolidated pockets, particularly along the river. Southern parts benefit nearby residential developments and proximity to universities.

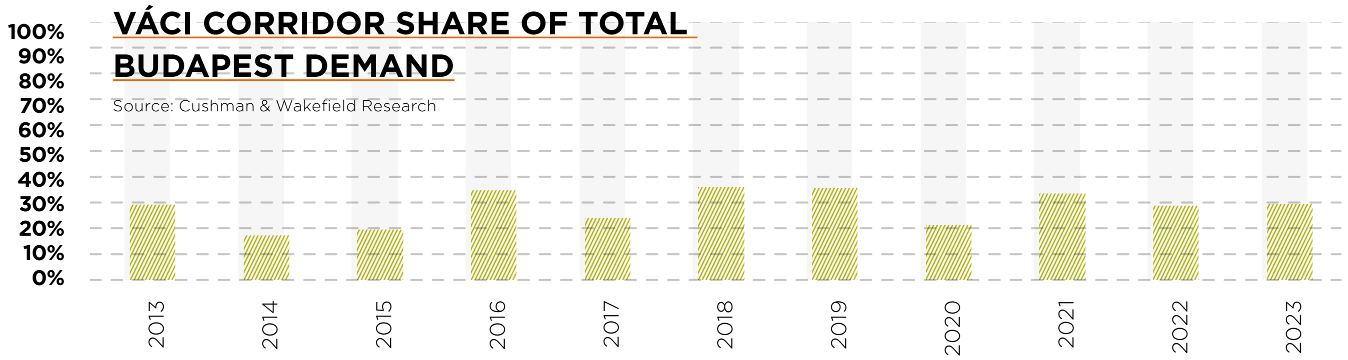
Non-Central Pest
This is a general area encompassing "everything else" in Pest and is a mixed bag of product but is one of the most dynamically developing submarkets of the city. The area has seen scattered developments along Hungária krt and Könyves Kálmán krt. These focal points have emerged typically along fixed-track public transport.

> Budapest's office market is usually divided into eight submarkets. Each submarket has different characteristics and attracts different types of occupiers.
>
> The Váci corridor is the largest submarket exceeding 1,100,000 sq. m in stock. Larger occupiers tend to gravitate along a north / south axis running down the Váci corridor, then south of the CBD along either side of the Danube.

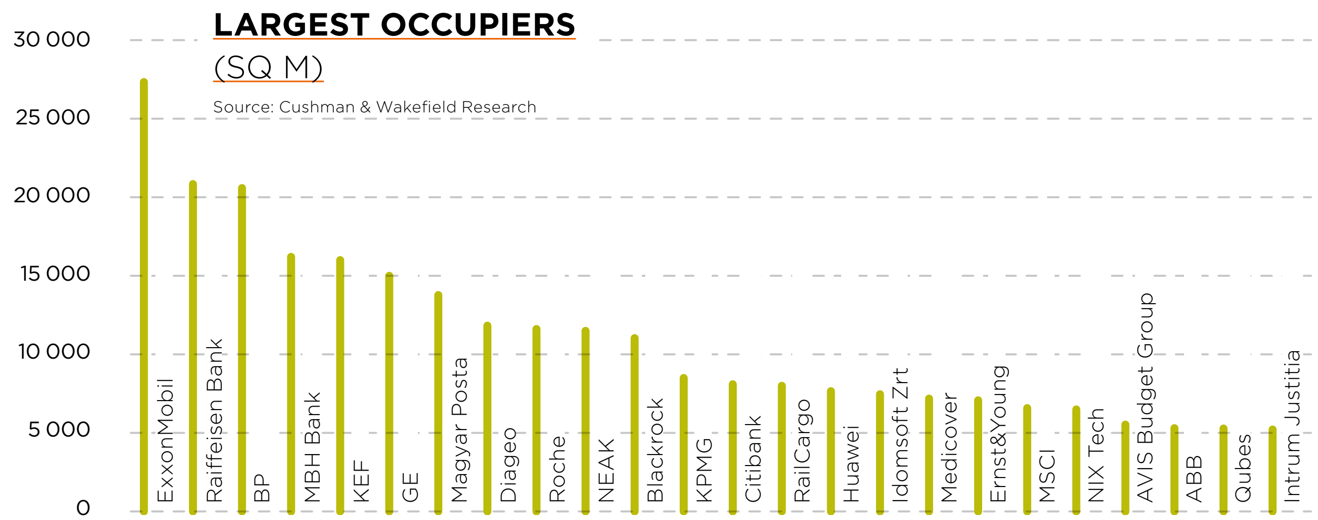
THE VÁCI CORRIDOR

THE PRIMARY OFFICE LOCATION FOR BSC TENANTS

The Váci corridor office submarket is Budapest's "office corridor", the primary office location for international tenants looking for large contiguous office space. With strong occupier activity seen in recent years, demand for the Váci corridor accounts for about a third of total demand.



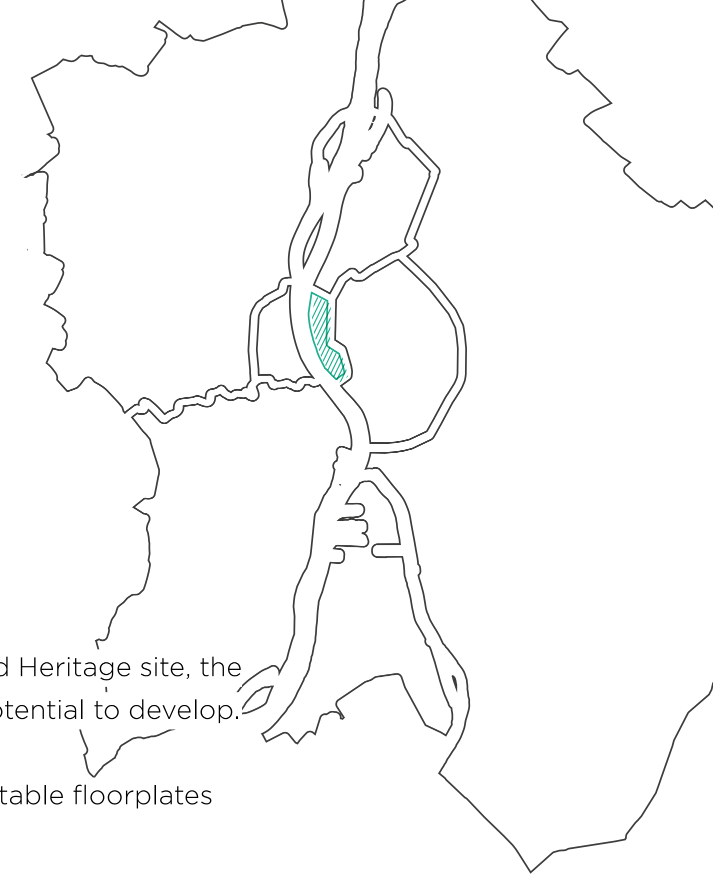
The key drivers of its success are available development sites, proximity to workforce (as District XIII has seen the most intensive development of residential units), and excellent communications through the metro and one of the city's key arterial roads, which links the Danube bridges and the city centre.

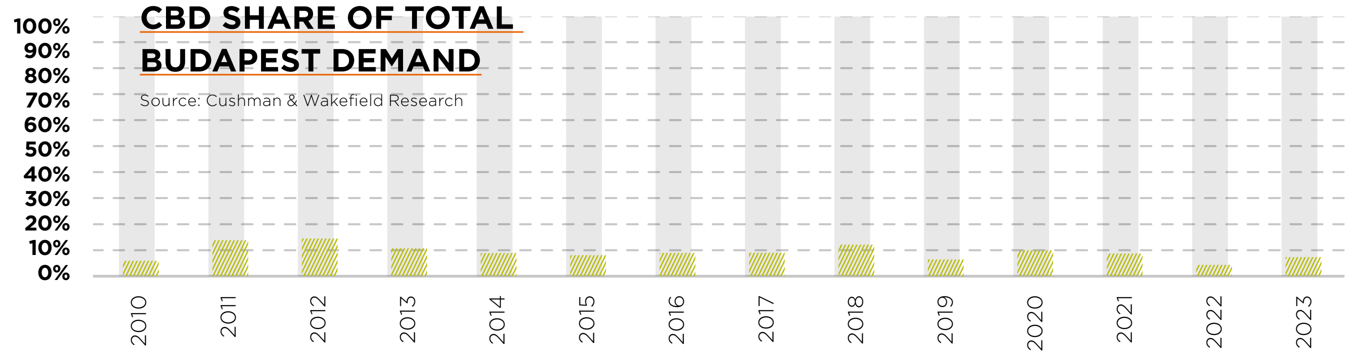


THE CBD

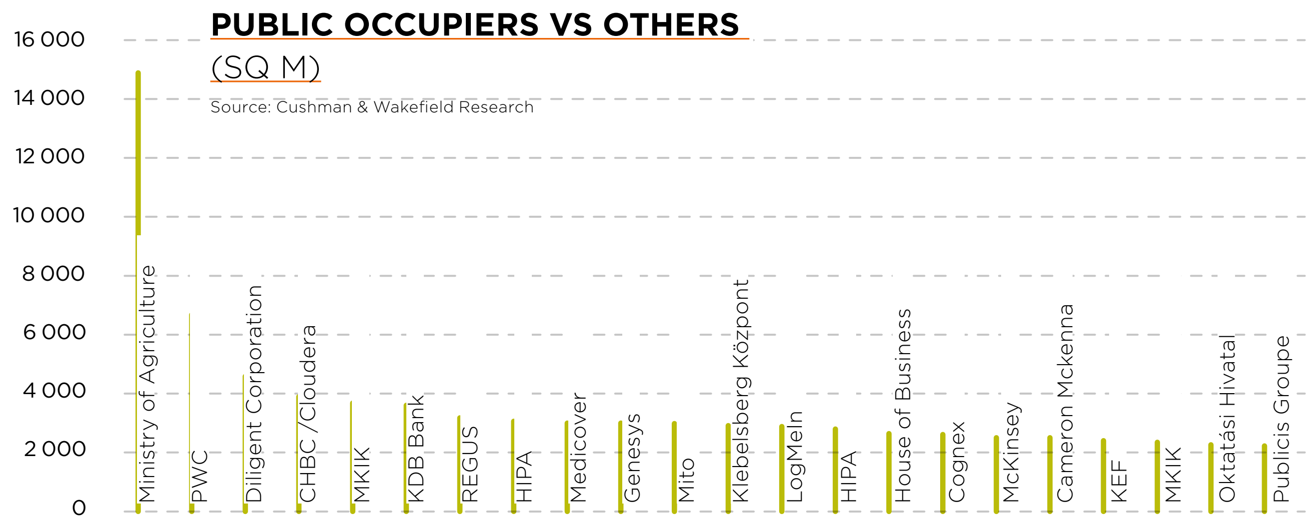
THE MOST UNDERSUPPLIED CBD IN THE REGION

The CBD is Budapest's historic core. As a UNESCO World Heritage site, the CBD is historically protected, which severely limits the potential to develop. Genuine class A offices are very limited and only a handful of assets are of sufficient scale or have suitable floorplates to cater for large scale or headquarter buildings.





Typical occupiers of the CBD are professional service providers and state bodies, rather than the largescale BPO's that are found in other locations. The limited supply and intense demand have enabled rents to grow at a much faster rate than other Central European Capitals. With CBD supply being the lowest of any major capital city, this is trend is likely to continue.



DEFINITIONS

Net take-up:
The figure is distinct from gross take-up, as lease renewals are excluded.

Net absorption:
The net change in physically occupied space over a given period of time, considering vacated and newly constructed space during the definite period.

Stock (Total stock):
Total Gross Lettable Area of completed space (occupied and vacant) in the office buildings positioned in A and B classes, both leased and owner-occupied, including purpose-built offices, offices converted from other uses and independent office space forming part of a mixed-use development.

Gross take-up:
A figure representing the total floorspace known to have been let or pre-let (for pipeline properties), sold or pre-sold (for pipeline properties) to tenants or owner-occupiers in existing buildings and pipeline schemes to be included in the Stock. Data includes new leases, pre-leases, owner occupation and expansions, and lease renewals. Space is deemed to be "taken up" only when contracts are signed.

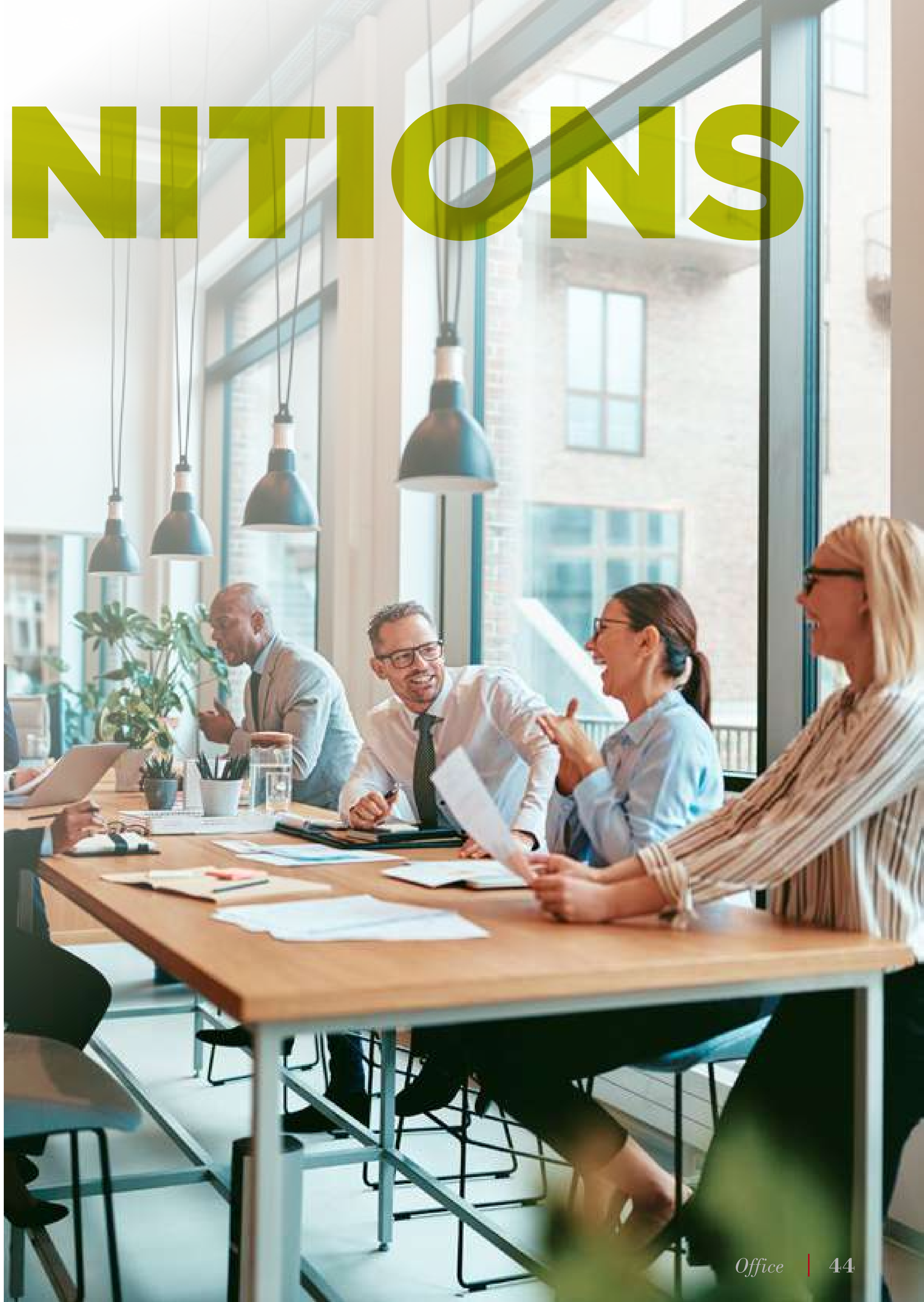
Under construction:
The total office space under construction at the end of a specified period. It includes new development, expansion of an existing scheme and comprehensive refurbishment.
(a) Speculative – space under construction that is available (or will be available upon completion) for occupation on the open market.
(b) Pre-let – space under construction already pre-committed with the lease agreement and not marketed as available on the open market.

Vacancy rate:
The share of vacant space as a proportion of stock.

Vacant space (Vacancy):
The vacancy is deemed to be the total Gross Lettable Area in an existing property that is included in the Stock, which is vacant and being actively marketed at the time. Space available for future occupation and sub-lease space opportunities are not included.

Prime yield:
The initial yield is estimated to be consistently achievable as an annual percentage income return for a property of the highest quality and specification, in the best location, fully let long term to a strong covenant/s, and immediately income-producing on present market terms at the survey date. It is an indicator of the tone in the market and the associated level of risk attached to that investment.

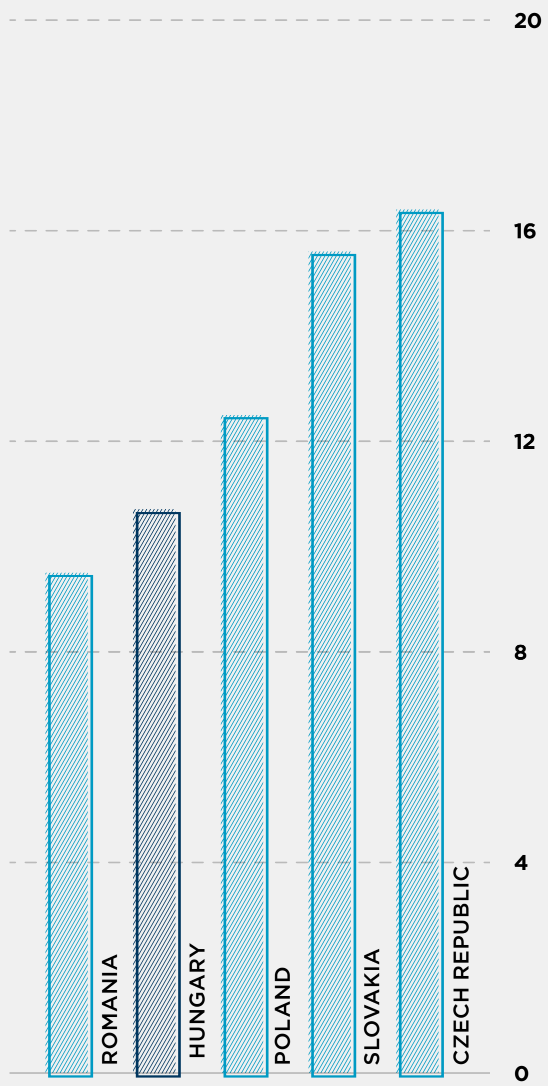
Prime rent:
Consistently achievable headline rental rate related to office units of a minimum size of 300 sq m in a new, well-located, highest specification (grade A) office building. If not indicated otherwise, prime rent is given as a base rent, i.e., no service charge, utilities and tax is included. The prime rent reflects the market's tone at the top end, even if no new leases have been signed within the survey period. One-off deals that do not represent the market are disregarded.



INDUSTRIAL

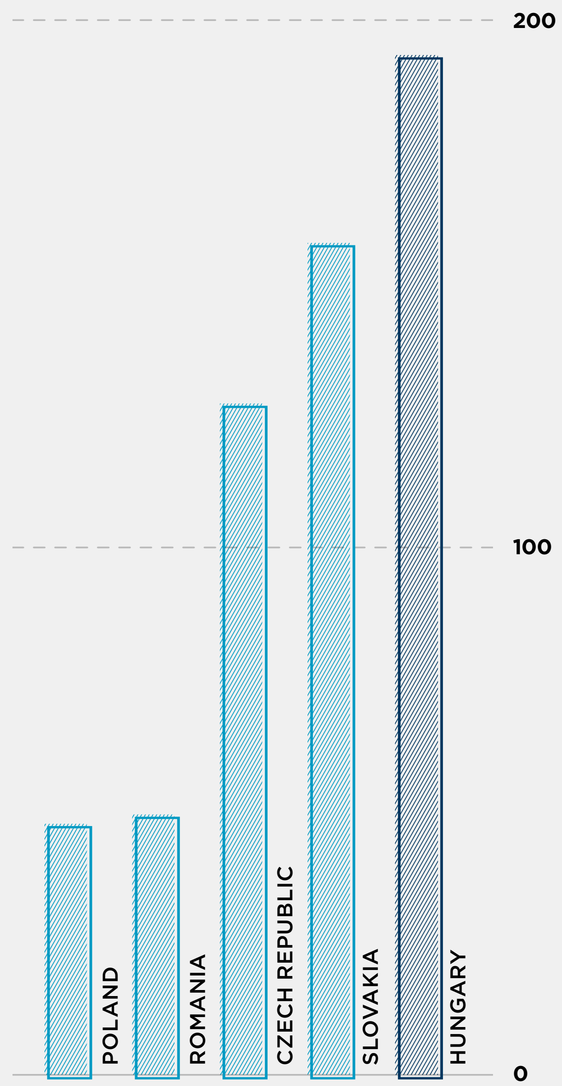
DRIVING GROWTH: NEARSHORING IN HUNGARY AND AUTOMOTIVE INDUSTRY INVESTMENTS

LABOUR COST LEVEL
(EURO PER HOUR)[1]



Source: C&W Research,
http://eugo.gov.hu/, https://ec.europa.eu

DENSITY OF HIGHWAYS IN CEE COUNTRIES
(KM/1000 SQ KM)



Source: C&W Research,
http://eugo.gov.hu/, https://ec.europa.eu

Nearshoring[2], the practice of relocating production closer to home markets, has become increasingly attractive in Europe amidst global economic shocks and supply chain disruptions. This trend is driven by various factors, including rising costs in traditional offshoring destinations, geopolitical tensions affecting trade routes, and growing concerns about sustainability.
CEE countries, such as Hungary, have emerged as favoured destinations for nearshoring due to several strategic advantages. These include lower labour costs compared to Western Europe, proximity to major Western-European markets, and resilient supply chains. Hungary stands out among its main CEE competitors due to its extensive transport infrastructure and relatively low labour costs, positioning it favourably for continued growth. Hungary also enjoys a favourable position in terms of rental rates.

[1] Labour cost for LCI (compensation of employees plus taxes minus subsidies) published by Eurostat
Source: C&W Research, http://eugo.gov.hu/, https://ec.europa.eu/"https://ec.europa.eu
[2] https://www.cushmanwakefield.com/en/insights/nearshoring-emea

The automotive sector plays a pivotal role in Hungary's manufacturing landscape, contributing significantly to the country's economy and export revenue. According to statistics from the HIPA, Hungary boasts over 700 automotive companies, collectively contributing to the GDP by 3.9% with a production value of EUR 26.2 billion. Among these are approximately 70 Tier 1 suppliers, 9 original equipment manufacturers (OEMs), and 40 top 100 Tier 1 companies. Remarkably, Hungary stands out as the only country, besides Germany, to host production units of all three premium German manufacturers (Audi, BMW, and Mercedes-Benz) in Europe. Recent investments in Hungary's automotive industry highlight its attractiveness to global manufacturers. BMW's EUR 2 billion commitment for battery assembly in Debrecen, along with CATL's EUR 7.4 billion investments in a battery cell factory, underscores Hungary's pivotal role in accelerating Europe's transition to e-mobility. NIO's battery pack exchange station in Biatorbágy and BYD's European electric vehicle manufacturing centre in Szeged further solidify Hungary's position in the global battery market. Major investments, like the EUR 1 billion injection into the Mercedes Kecskemét plant, drive job creation and propel Hungary's automotive industry forward. The ZalaZone complex, with its advanced test track for autonomous driving, exemplifies Hungary's commitment to leading automotive innovation in the region and beyond.

THE AUTOMOTIVE SECTOR PLAYS A PIVOTAL ROLE IN HUNGARY'S MANUFACTURING LANDSCAPE, CONTRIBUTING SIGNIFICANTLY TO THE COUNTRY'S ECONOMY AND EXPORT REVENUE

REGIONAL LOGISTICS AND MANUFACTURING IN HUNGARY

NEW HOTSPOTS

Hungary plays a crucial role in the battery manufacturing sector, hosting key players such as Samsung SDI in Göd, SK Innovation in Komárom, and Inzi Controls also in Komárom and Iváncsa. Moreover, CATL is establishing a significant factory in Debrecen, expected to be operational within the next five years.

REGIONAL LOGISTICS

Regional logistics in Hungary is driven mainly by the German automotive industry and generates a continuous demand for industrial space throughout the country. The growth of battery production and related manufacturing activities are also generating steady demand in regional logistics.

INDUSTRIAL HOTSPOTS

Hungary boasts significant industrial hubs for automotive manufacturing and parts supply, with key centres in Győr (Audi), Kecskemét (Daimler Mercedes), and Debrecen (BMW), complemented by Szeged (BYD), Esztergom (Suzuki) and Szentgotthárd (Stellantis). These hubs, supported by automotive suppliers, demonstrate sustained demand in the sector.

In line with this, BMW is constructing a battery assembly plant in Debrecen to streamline logistics and produce next-generation batteries. This move aims to position Hungary as a pivotal site for BMW's electric vehicle production, with a framework agreement with CATL in Debrecen to supply battery cells for its latest models (Neue Klasse) from 2025.

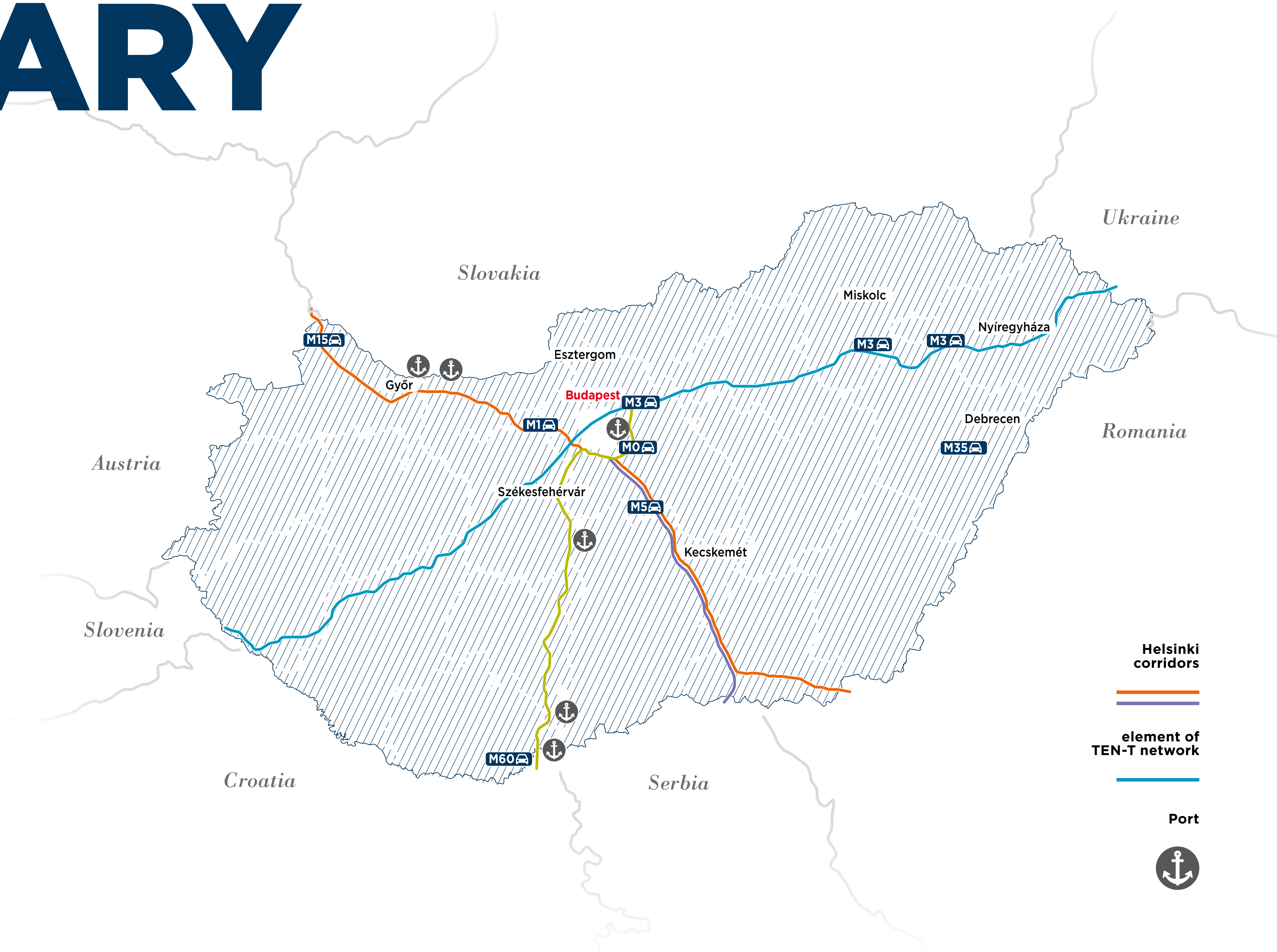
OWNEVR-OCCUPATION IN DOMINANCE

These brands primarily operate from owner-occupied schemes, fostering build-to-suit developments in their vicinity. These clusters typically house direct suppliers to the main plant.

Manufacturing facilities in Hungary are dispersed across the country, often enticed by state subsidies, and drawn to substantially lower labour costs compared to Budapest. Consequently, most manufacturing brands are owner-managed and not integrated into the Hungarian institutional stock.

HELSINKI CORRIDORS AND TEN-T NETWORK IN HUNGARY

HUNGARY IS SITUATED AT THE CENTRE OF THREE TEN-T CORRIDORS



CUSHMAN & WAKEFIELD

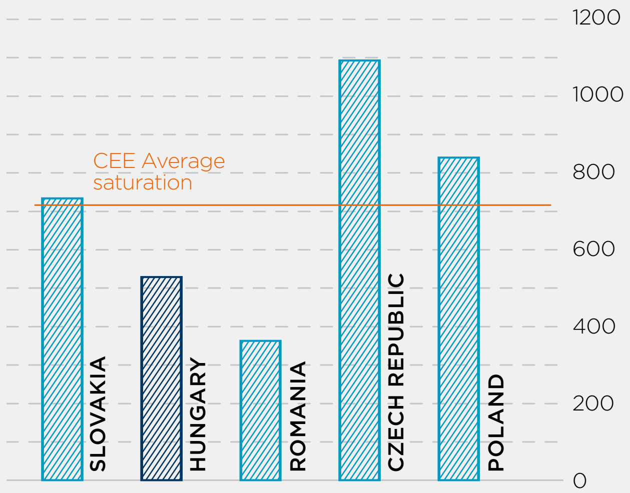
DRIVING FORWARD:

HUNGARY'S LOGISTICS SECTOR EXPANSION BEYOND BUDAPEST

The majority of Hungary's modern logistics facilities are concentrated around Budapest, primarily along the M0 ring road. Approximately 70% of the total warehouse space, totalling around 5.09 million sq.m, is situated in the Greater Budapest region. Despite this concentration, Hungary's overall logistics market remains relatively small compared to its regional counterparts, with lower per capita stock levels. However, this presents significant growth opportunities for regional markets, particularly in key logistics hubs such as Debrecen, Kecskemét, Szeged, and Győr. The recent emergence of BYD in Szeged is expected to further enhance the region's logistics infrastructure and capabilities. The Greater Budapest region encompasses 3.49 million sq.m, comparable to Prague and Bucharest markets. Budapest ranks second in demand levels among regional capitals, following Warsaw. In Hungary's developer market, Prologis held a near monopoly before the Global Financial Crisis, with smaller competitors. However, recent years have seen the emergence of global players like Logicor and GLP, as well as domestic and regional giants such as CTP, WING, and Hello Parks. The newest player in the market is Panattoni.

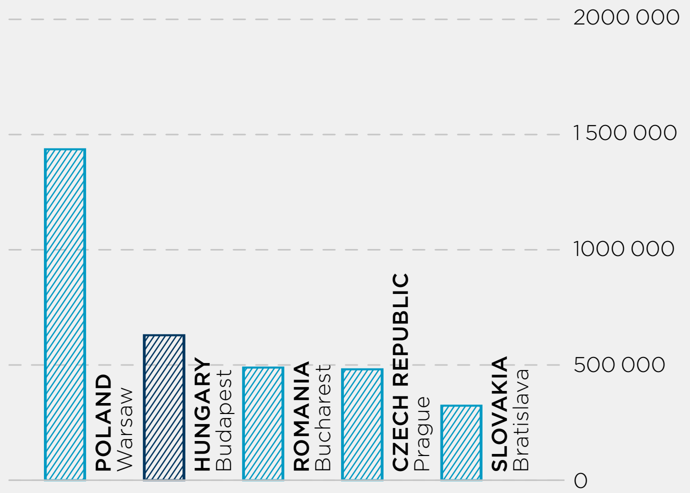
TOTAL LOGISTICS STOCK TOTAL COUNTRY / 1,000 POPULATION

Source: Cushman & Wakefield Research



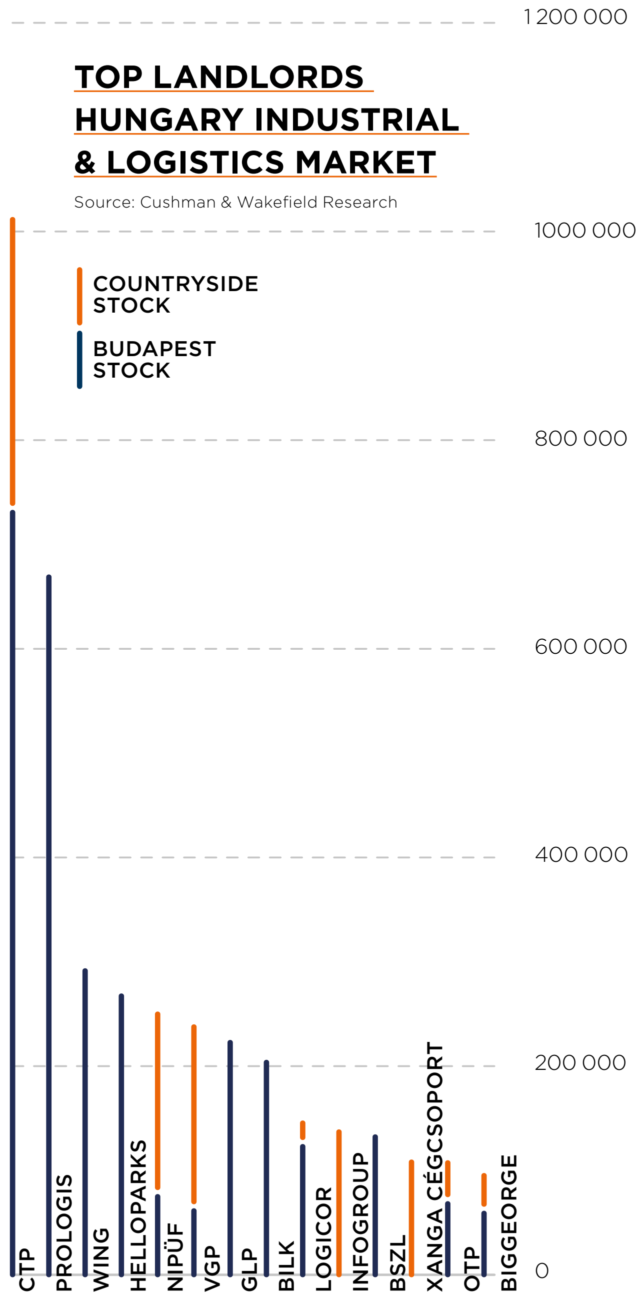
LOGISTICS DEMAND IN THE CEE COUNTRIES (SQ M) 2023

Source: Cushman & Wakefield Research



TOP LANDLORDS HUNGARY INDUSTRIAL & LOGISTICS MARKET

Source: Cushman & Wakefield Research



CUSHMAN & WAKEFIELD

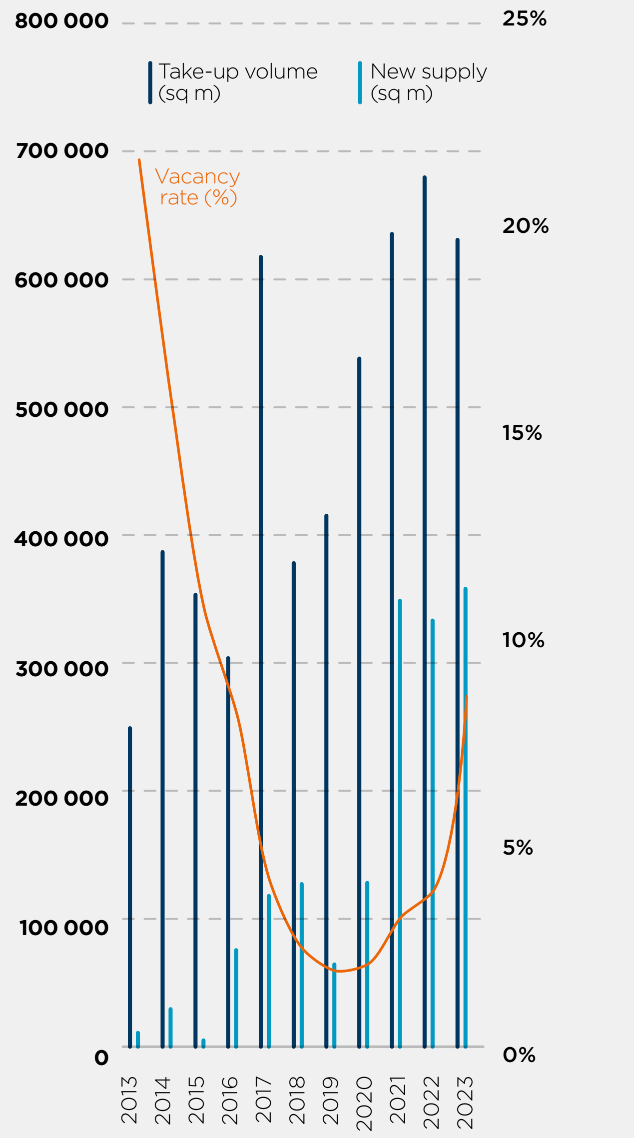
The surge in demand for logistics space in Greater Budapest has been remarkable in recent years, with average annual demand increasing from 350,000 sq. m per year between 2008 and 2019 to 620,000 sq. m over the last four years. Setting new records in 2022 with 680,000 sq. m and remaining strong in 2023 at 630,000 sq. m, this trend mirrors European patterns and is propelled by both existing players expanding and new entrants entering the market.

This steeply contrasts to the period between 2009 and 2020, which saw an average supply of just 65,000 sq. m per year, leading to record-low vacancy rates by 2020. In response to this opportunity and global logistics trends, the development market became increasingly active from 2021 onwards. Approximately 347,000 sq. m of new space entered the market annually between 2021 and 2023, representing a significant 47% addition to the Greater Budapest stock in just three years.

DYNAMICS OF LOGISTICS SPACE DEMAND AND SUPPLY IN GREATER BUDAPEST:

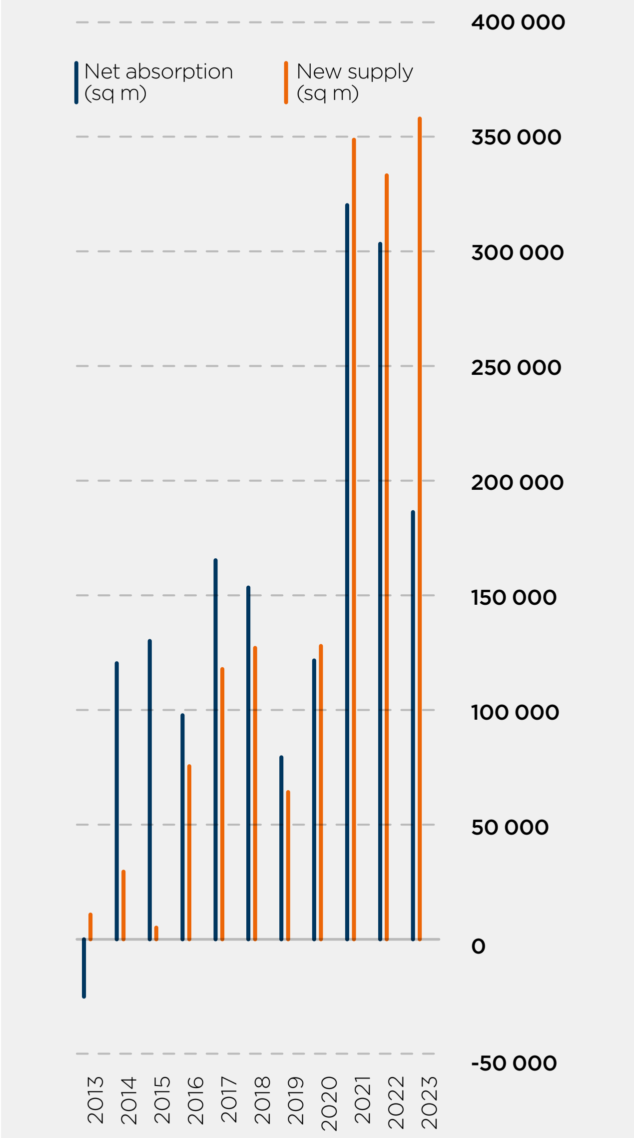
THE SUMMARY CHART OF THE BUDAPEST INDUSTRIAL MARKET

Source: BRF, Cushman & Wakefield Research



NEW SUPPLY AND NET ABSORPTION (SQ M)

Source: BRF, Cushman & Wakefield Research

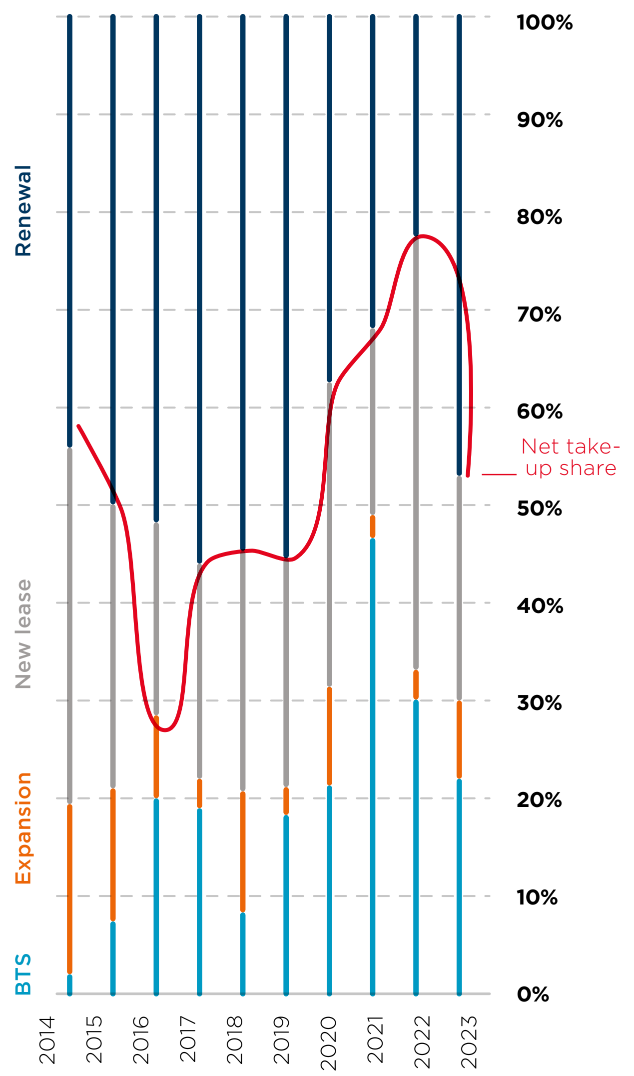


TRENDS AND IMPLICATIONS

New supply has primarily been absorbed through build-to-suit (BTS) arrangements, as evidenced by the significant net absorption figures over the past three years, totalling over 800,000 sq. m. However, the increase in speculative spaces led to a decrease in net absorption in 2023, pushing the vacancy rate up to 8.6%, still below the 10% threshold across the region.

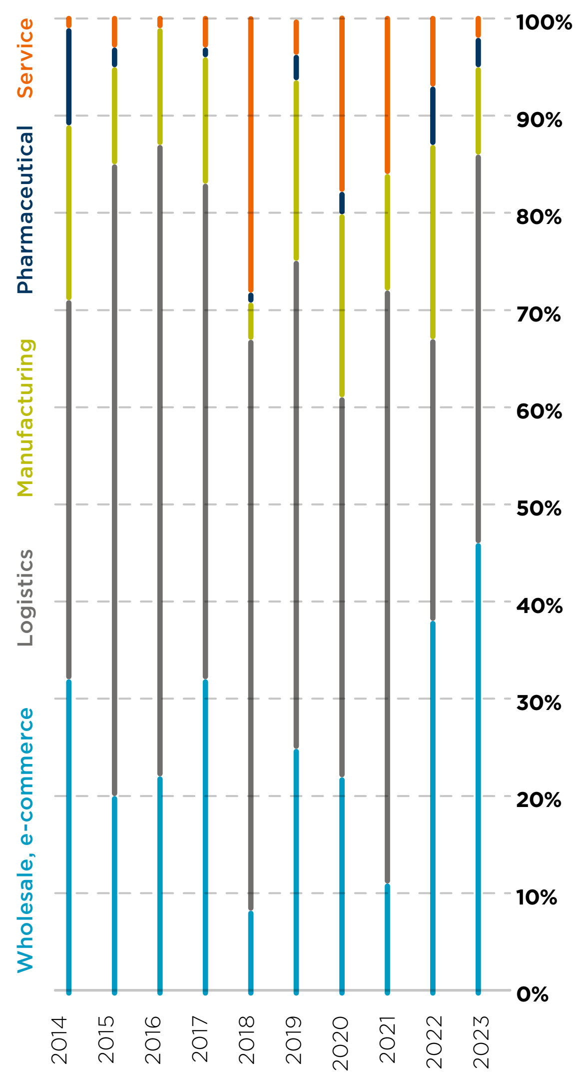
ANNUAL DEMAND STRUCTURE - GREATER BUDAPEST

Source: BRF, Cushman & Wakefield Research



OCCUPIER DEMAND IN GREATER BUDAPEST BY SECTORS (%)

Source: BRF, Cushman & Wakefield Research



Economic uncertainty has prompted businesses to exercise caution, leading to delays in new space commitments and prolonged decision-making processes. Despite robust demand figures the share of net take-up declined to 53% of the total leasing activity, its lowest proportion since 2019. The surge in renewals reflects the challenges of making new commitments in an uncertain world, providing existing contractual relationships with a one-off advantage.

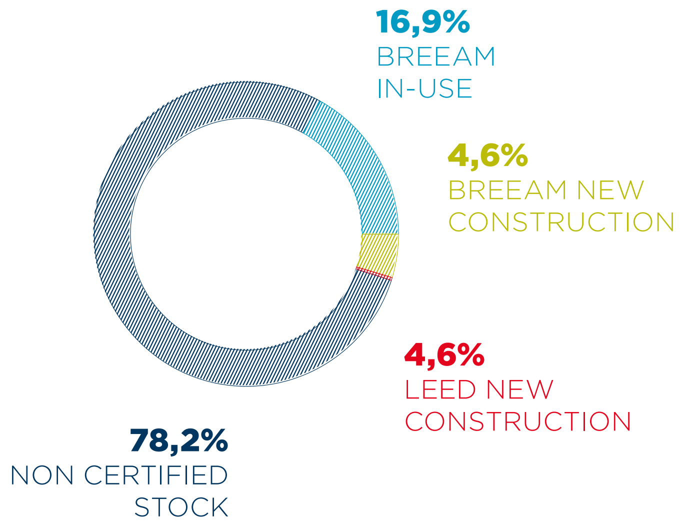
Irrespective of the above, the ongoing demand for new and high-quality space persists, driven by considerations of operational cost and efficiency gains from consolidating operations. Structural shifts, particularly nearshoring trends, further bolster demand for logistics space.

Additionally, occupiers prioritise sustainability, leading to transactions for buildings with higher sustainability credentials. Tenants in Hungary are gradually encouraging landlords to provide renewable and energy-efficient solutions, thereby improving the ESG outlook for the stock. Presently, only 23% of logistics stock has green certification, indicating an area ripe for significant improvement in the short term.

The market remains primarily driven by logistics, with a noticeable deceleration in e-commerce activity. Nevertheless, e-commerce and wholesale tenants accounted for a significant 46% of all demand in 2023, translating to over 300,000 sq.m of transactions within this sector alone.

BUDAPEST LOGISTICS MARKET GREEN CERTIFICATES

Source: BRF, Cushman & Wakefield Research

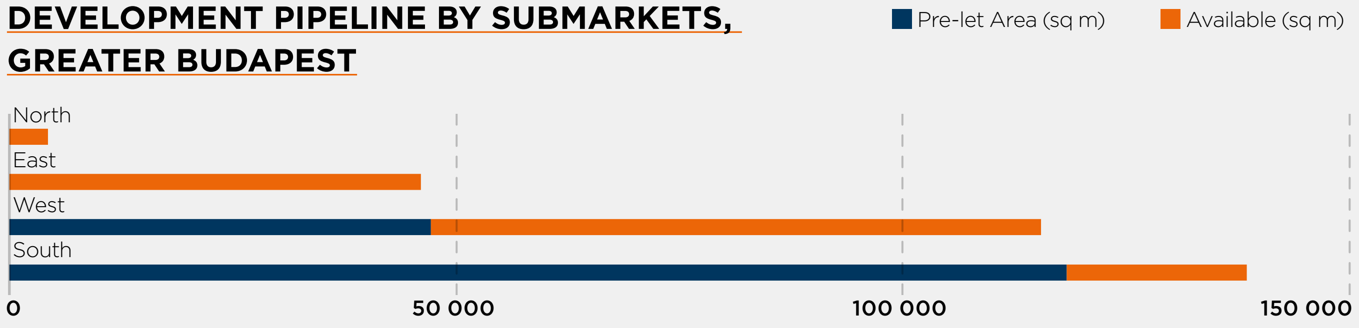


PROPERTY	TYPE	TENANT	QUARTER	SIZE (SQ M)	TYPE
VGP Park Győr Beta A	LP	Apollo Tyres	Q1	25,000	pre-lease
Prologis Park Budapest – Gyál	LP	Confidential	Q1	23,000	renewal
CTPark Komárom KMR4	LP	Confidential	Q1	16,800	new
HelloParks Páty	LP	Confidential	Q1	14,000	pre-lease
VGP Park Kecskemét	LP	Confidential	Q2	32,000	pre-lease
HelloParks Páty – PT2	LP	Gebrüder Weiss	Q2	22,800	pre-lease
HelloParks Páty – PT1	LP	DM	Q2	17,800	pre-lease
VGP Park Győr Beta A	LP	Confidential	Q2	12,000	pre-lease
VGP Park Győr Beta C	LP	Confidential	Q3	19,900	pre-lease
Panattoni Kecskemét	LP	Confidential	Q3	16,600	pre-lease
CTPark Budapest East - ULL7	LP	Confidential	Q3	15,500	renewal
Panattoni Debrecen	LP	Confidential	Q3	13,700	pre-lease
GLP Üllő Logistics Centre	LP	Confidential	Q4	82,320	renewal
Rossmann HQ (BTS)	LP	Rossmann	Q4	32,000	pre-lease
HelloParks Páty – PT3	LP	Transdanubia	Q4	24,350	pre-lease
HelloParks Páty – PT1	LP	DHL	Q4	20,120	new

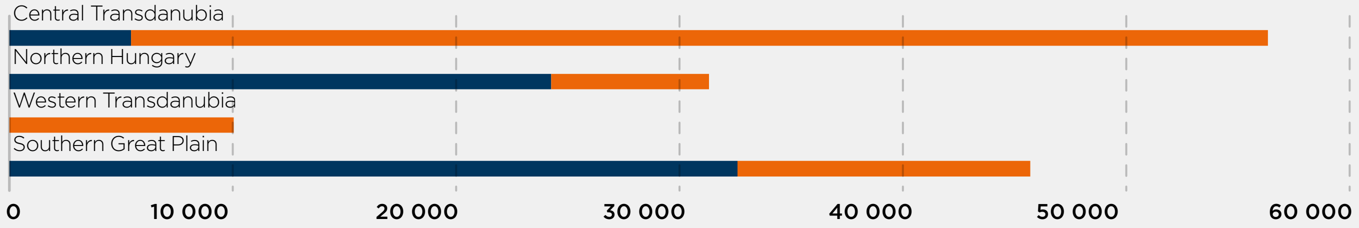
THE MARKET REMAINS PRIMARILY DRIVEN BY LOGISTICS, WITH A NOTICEABLE DECELERATION IN E-COMMERCE ACTIVITY.

SHIFTING DYNAMICS: LOGISTICS DEVELOPMENT TRENDS IN GREATER BUDAPEST AND REGIONAL CITIES

DEVELOPMENT PIPELINE BY SUBMARKETS, GREATER BUDAPEST

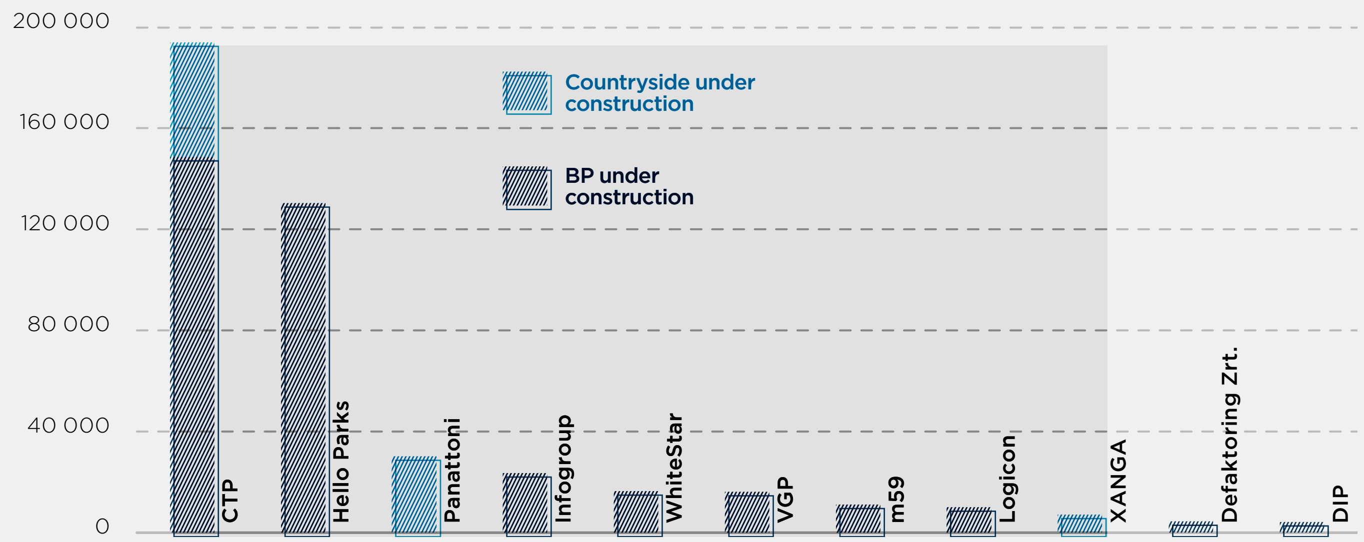


DEVELOPMENT PIPELINE BY SUBMARKETS, REGIONAL MARKETS



Source: Cushman & Wakefield Research

PIPELINE UNDER CONSTRUCTION



Source: Cushman & Wakefield Research

In 2019, Greater Budapest experienced historically low vacancy rates. The surge in demand during and after the pandemic, led to tight availability in 2020. Consequently, there was a notable acceleration in development activity, with over 1 million sq.m added to the Greater Budapest market in the last three years. However, despite the record demand levels, the supply of new developments continues unabated, both in volume and pace. This has resulted in increasing vacancy rates, indicating a changing market dynamic.

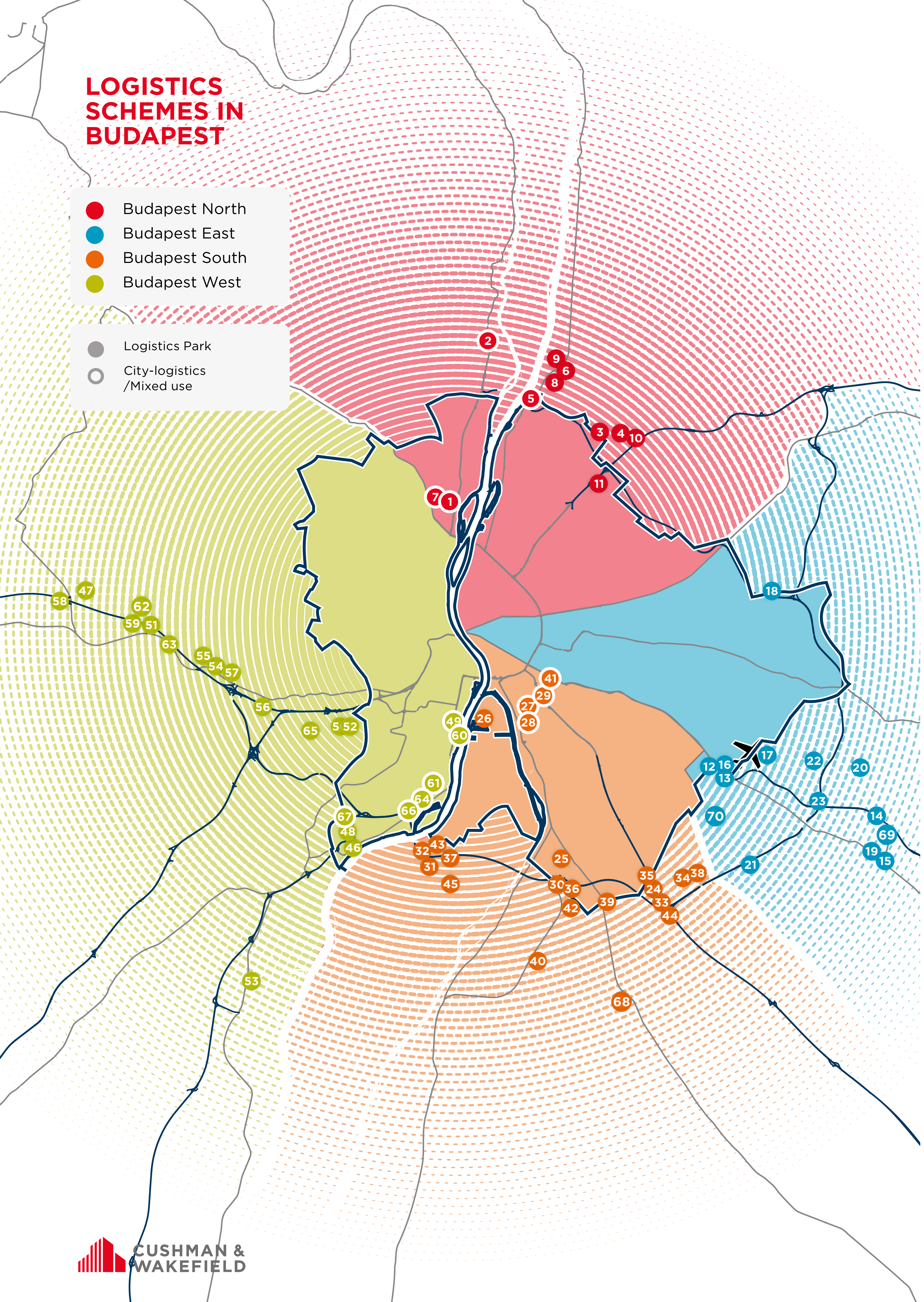
In response, developers have expanded construction into new geographical areas in regional markets, primarily driven by occupier-led strategies. Consequently, speculative development is expected to slow in Greater Budapest as developers adopt cautious approaches to prevent potential market oversupply.

With nearly 518,000 sq.m of logistics space currently under construction, the majority of development (358,000 sq. m) is concentrated in the Greater Budapest area, and has a pre-letting rate of 54%. Development activity is particularly concentrated in the South and West submarkets.

There is an anticipated shift in focus towards regional cities, where significant industrial development has either already taken place or is planned. This shift presents substantial opportunities for both direct investment and speculative development. Approximately 143,000 sq.m is under construction and scheduled for delivery in 2024 and 2025. Nearly half of this space is already committed under pre-lease agreements. Notably, development is primarily concentrated in Komárom and Tatabánya.

In terms of developers, CTP and HelloParks are currently the most active players, with a primary focus on the Greater Budapest area. Panattoni, a newcomer to the industry, is also rapidly advancing its position. In regional markets, CTP is leading development efforts in Central Transdanubia, while InfoGroup leads in the Northern Great Plain. Additionally, WhiteStar, a newcomer in the logistics sector, is gearing up to launch its first city logistics scheme in Budafok. Prologis remains a stable service provider in core Greater Budapest regions, and a comfortable land bank for new developments.

LOGISTICS SCHEMES IN BUDAPEST



BUDAPEST NORTH

1 Aquincum LogisztikaiPark
2 Bravos Business Park
3 East Gate Business Park
4 East Gate PRO
5 LoginBusiness Park
6 MTH 7
7 V95 Logisztikai Központ
8 Gentraco
9 Antal Raktárak
10 HELLO Parks Fót
11 LogStar Park Budapest

BUDAPEST EAST

12 AIRPORT CITY Logistic Park
13 JT Ross Aerozone Business Park
14 GLP Üllő Logistics Centre
15 Mapletree Üllő
16 Budapest Airport Business Park
17 BUD Cargo City
18 CTPark Nagytarcsa
19 CTPark Budapest East
20 HELLO Parks Maglód
21 CTPark Vecsés
22 CTPark Ecser
23 VGP Park Aerozone
69 Rossmann HQ
70 Weerts Logisztikai Központ

BUDAPEST SOUTH

24 Akácliget Logisztikai Központ
25 BILK
26 Budapest Dock Szabadkikötő
27 InNove Business Park
28 citypoint9
29 Dél-pesti Üzleti Park
30 LOG CENTER Dunaharaszti
31 Prologis Park Budapest - Sziget
32 Prologis Park Budapest - Sziget II
33 GLP Gyál Logistics Centre
34 M5-GYÁL Business Park
35 Prologis Park Budapest - Gyál
36 Logis Raktárak
37 Delta Park M0
38 Tesco DC Gyál
39 VGP Park Alsónémedi
40 CGL Dunaharaszti
41 Logicor Fehérakác
42 CTPark Budapest South
43 GLP Sziget Logistics Centre
44 Panattoni Park Gyál
45 CTPark Sziget
68 HELLO Parks Alsónémedi

BUDAPEST WEST

46 Prologis Park Budapest - Harbor
47 Mile Logistics Center
48 C-Moll Logisztikai Központ
49 DAN Business Park
50 Euro-BusinessPark
51 Prologis Park Budapest - M1
52 Prologis Park Budapest - Budaörs
53 Mapletree Budapest Batta
54 CTPark Budapest West
55 Tulipan Park
56 LogStar Park West Gate
57 West Base
58 Tesco DC Herceghalom
59 Inpark Páty
60 Újbuda One
61 Budafok One Logisztikai Park
62 HELLO Parks Páty
63 Logicube
64 Park 22
65 Panattoni Park Budapest West
66 Növény utcai raktárbázis
67 Faedra22 Park

RENTAL DYNAMICS:
CONTRASTING TRENDS IN GREATER BUDAPEST AND REGIONAL MARKETS

In Greater Budapest and other regional locations, prime rents saw a notable year-on-year increase in 2023. However, the last quarter saw rental growth plateau due to intensified competition.

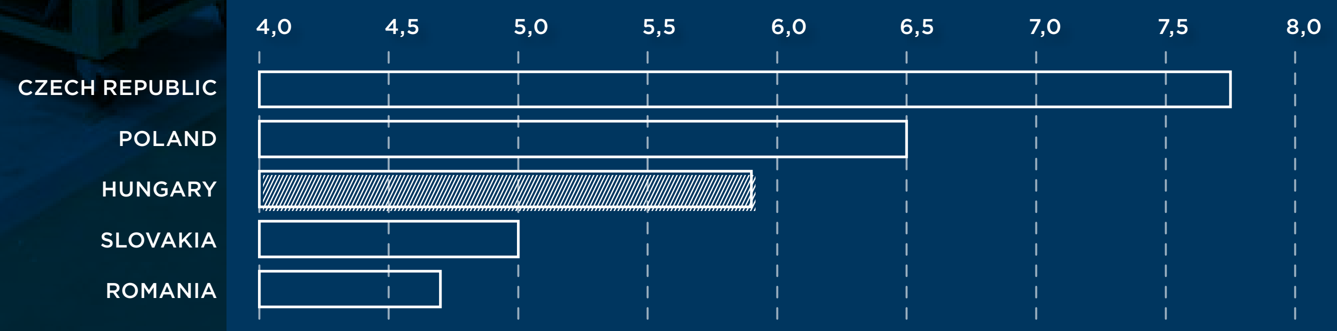
In Greater Budapest, increased warehouse space availability has heightened competition among developers, resulting in downward pressure on pricing. This has prompted adjustments in headline rates, with some developers reducing rents outright and others offering attractive incentive packages to prospective tenants. Landlords are adapting by offering greater flexibility in rental periods to attract tenants. In addition, construction costs have recently shown some degree of consolidation prompting developers to reconsider their rental rates to align with their cost structures and profit expectations.

In regional markets, developers typically prioritise build-to-suit (BTS) solutions over speculative projects, leading to lower vacancy rates. Consequently, prices in regional BTS transactions tend to remain relatively consistent and are influenced by factors such as location and project complexity. Despite these regional dynamics, the Greater Budapest area maintains its position as a competitive business location within Central Europe.

SUBMARKET	PRIME RENT AS AT Dec-23 (Euro / sq. m / month)	Y/Y growth	3yr CAGR	5yr CAGR	10yr CAGR
Budapest	5.90	10.3%	6.4%	6.8%	5.7%
Debrecen	5.90	10.3%	9.4%	9.5%	5.4%
Miskolc	5.80	8.4%	11.4%	9.1%	5.2%
Győr	5.60	16.7%	2.2%	7.0%	4.8%
Pécs*	5.00	11.1%	n/a	n/a	n/a
Kecskemét*	5.90	22.9%	n/a	n/a	n/a

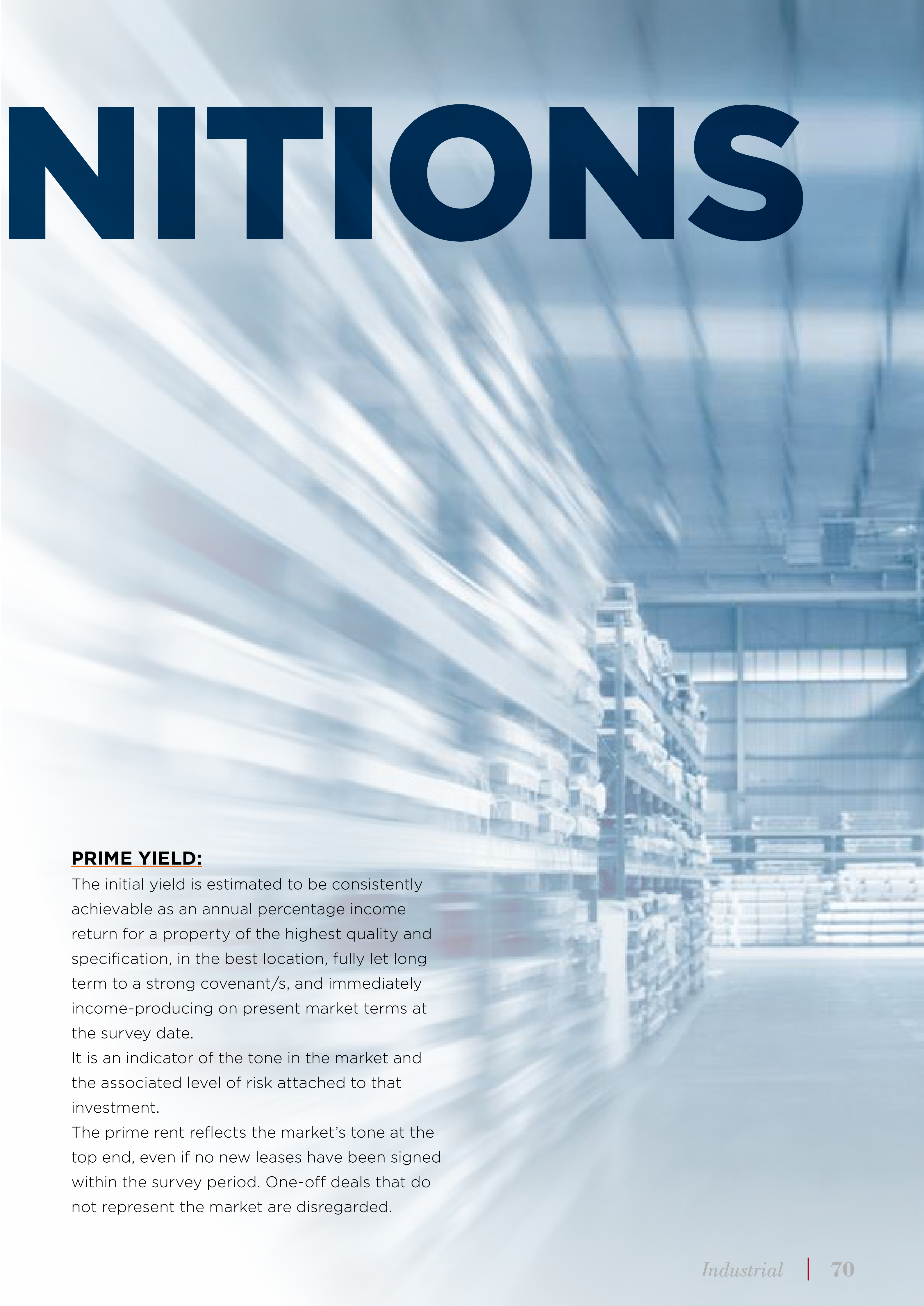
PRIME INDUSTRIAL RENTS YE 2023

Source: Cushman & Wakefield Research



* Please note that since this location was added to our database in 2022, historical data is currently unavailable.

DEFINITIONS



VACANCY RATE:
The amount of vacant space as a proportion of stock.

NET TAKE-UP:
A figure is distinct from gross take-up, as lease renewals are excluded.

NET ABSORPTION:
The net change in physically occupied space over a given period, considering vacated and newly constructed space during a definite time.

GROSS TAKE-UP:
A figure representing the total floorspace known to have been let or pre-let (for pipeline properties), sold or pre-sold (for pipeline properties) to tenants or owner-occupiers in existing buildings and pipeline schemes to be included in 'Stock'. Data includes new leases, pre-leases, owner occupation and expansions, and lease renewals. Space is considered 'taken up' only when contracts are signed.

PRIME RENT:
Consistently achievable headline rental rate related to a modern warehousing space unit of a minimum size of 1,000 sq m in a modern logistics scheme located in a prime out-of-city location close to communication links. If not indicated otherwise, prime rent is given as a base rent, i.e. no service charge, utilities and tax is included. It is quoted for warehousing space within the scheme, i.e. it is not a 'blended rent', and rents for office and mezzanine components of the property are not included.
The prime rent reflects the market's tone at the top end, even if no new leases have been signed within the survey period. One-off deals that do not represent the market are disregarded.

Under construction:
The total amount of logistics/industrial space currently under construction at the end of a specified period. It includes new development, expansion of an existing scheme and comprehensive refurbishment.

(a) Speculative – space under construction that is available (or will be available upon completion) for lease on the open market.

(b) Pre-let – space under construction that has already been pre-committed with the lease agreement and is not marketed as available on the open market.

STOCK (TOTAL STOCK):
Total Gross Lettable Area of completed space (occupied and vacant) in all types of buildings regardless of quality and age, excluding owner-occupied properties. The figure includes an ancillary office and mezzanine space.

VACANT SPACE (VACANCY):
The vacancy is deemed the total Gross Lettable Area in an existing property included in stock, which is vacant and actively marketed at the time. Space available for future occupation and sub-lease space opportunities are not included.

PRIME YIELD:
The initial yield is estimated to be consistently achievable as an annual percentage income return for a property of the highest quality and specification, in the best location, fully let long term to a strong covenant/s, and immediately income-producing on present market terms at the survey date.
It is an indicator of the tone in the market and the associated level of risk attached to that investment.
The prime rent reflects the market's tone at the top end, even if no new leases have been signed within the survey period. One-off deals that do not represent the market are disregarded.

RETAIL MARKET TRENDS

INSIGHTS INTO RETAIL MACRO INDICATORS AND CONSUMER TRENDS

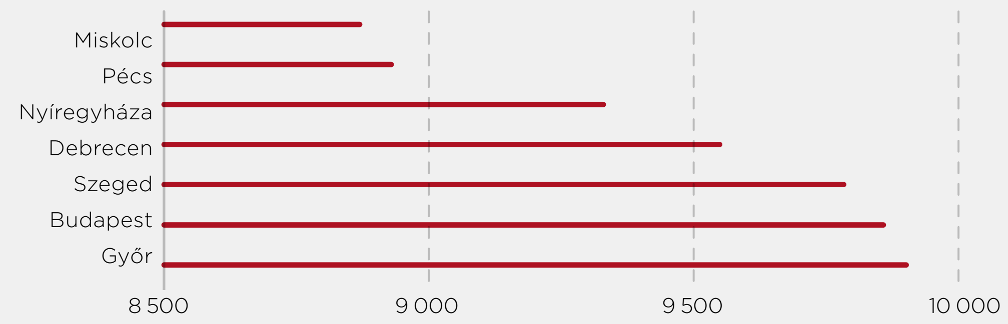
CUSHMAN & WAKEFIELD

With a metropolitan population exceeding 3.3 million inhabitants, which accounts for over 30% of the country's total population, Budapest stands as the most dominant capital of the CEE region. Only six other Hungarian cities can be deemed metropolises with populations exceeding 100,000, with the largest being Debrecen with 200,000 residents and a 30-minute catchment area encompassing 345,000 individuals. Budapest maintains its position as the economic hub of the country, boasting a per capita household disposable income of €9,860. However, the spending landscape witnessed significant shifts since 2022, primarily driven by elevated inflation. Food and beverages now dominate the spending scene, commanding a 43% share compared to the previous 26%. Conversely, all other categories experienced a notable decline, with none exceeding a 7% share, showcasing the impact of inflation on consumer behaviour. Traditional retail segments like clothing expenditure represent a mere 6%.

BUDAPEST STANDS AS THE MOST DOMINANT CAPITAL OF THE CEE REGION

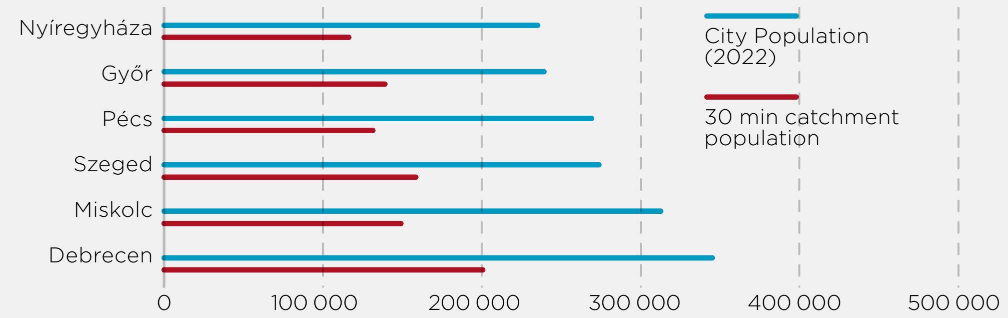
PURCHASING POWER PER CAPITA, EURO (2022)

Source: MBR, 2023



LARGEST CITIES IN THE HUNGARIAN COUNTRYSIDE

Source: ESRI, ArcGIS



Nominal wages continued to experience strong growth, rising by 14.4% year-on-year in 2023, following 17.2% in 2022. Whilst the unemployment rate persists at 0.5% higher than the pre-pandemic average and continues to show a gradual increase, this figure still maintains a significant gap, at least 170 basis points below the Euro Zone average, as we move forward. Whilst Moody's anticipates further increases in unemployment, the extent hinges on broader global economic demand, yet the labour market remains tight. Real wages are increasing by 4% year on year, driven by ongoing disinflation, which will continue to fuel consumer confidence and increase domestic demand.

Moody's forecasts that inflation in Hungary will reach the upper band of the central bank's 2% to 4% target rate by the end of 2024, although month-on-month inflation is not projected to meet the target until 2025. However, core inflation indicators, including food and energy prices, are showing a slower decline, indicating that inflation and interest rates are likely to remain elevated for an extended period.

Pre-pandemic, Hungary boasted solid retail sales growth, leading the CEE region. While the overall economic impact of the pandemic was milder than anticipated, consumption patterns have shifted, with food and beverages sales maintaining dominance and spending on fashion, household furnishings, and books lagging behind pre-pandemic levels. Moody's projected a significant decline in retail sales in Hungary for 2023, expecting a drop by -7.8%.

CONSUMPTION EXPENDITURE PER CAPITA 2022

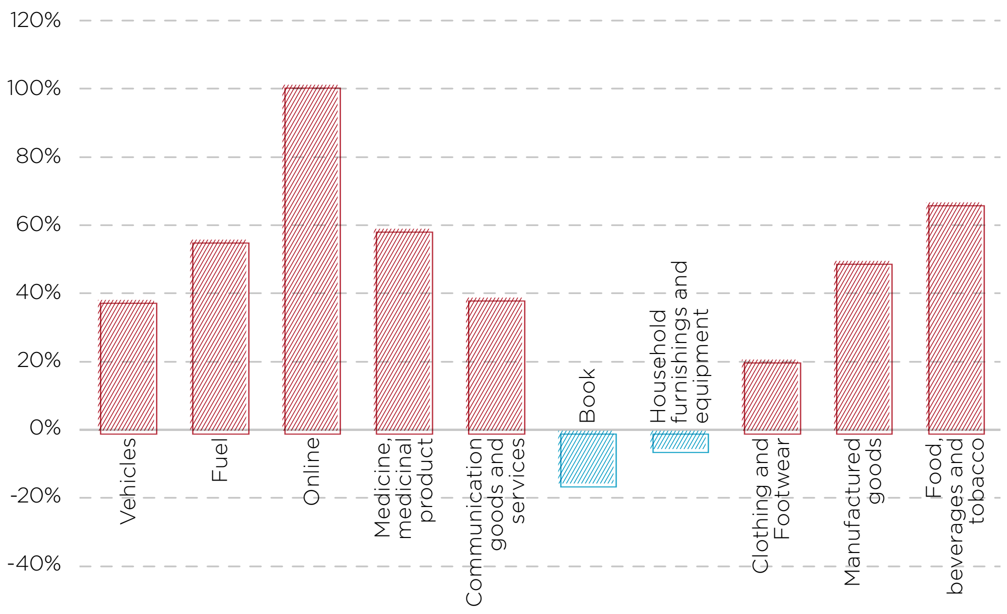
Source: ESRI, MBR, 2024 February

FOOD & NON-ALCOHOLIC BEVERAGE EXPENDITURES	43%
ALCOHOLIC BEVERAGE EXPENDITURES	7%
RECREATIONAL & CULTURAL SERVICE EXPENDITURES	6%
CLOTHING EXPENDITURES	6%
TOYS, GAMES, HOBBY, SPORTS, GARDEN, & PETS EXPENDITURES	5%
MEDICAL PRODUCTS & EQUIPMENT/APPLIANCES EXPENDITURES	5%
PERSONAL CARE EXPENDITURES	4%
CATERING SERVICES EXPENDITURES	3%
FURNITURE, FURNISHING, & FLOOR COVERING EXPENDITURES	3%
HOUSEHOLD APPLIANCES EXPENDITURES	3%
ROUTINE HOUSEHOLD MAINTENANCE EXPENDITURES	3%
CONSUMER ELECTRONICS & PHOTO/IT EQUIPMENT EXPENDITURES	2%
FOOTWEAR EXPENDITURES	2%
BOOKS, NEWSPAPERS, & STATIONERY EXPENDITURES	2%
HOUSEHOLD TEXTILES EXPENDITURES	1%
GLASSWARE, TABLEWARE, & HOUSEHOLD UTENSILS EXPENDITURES	1%
JEWELRY, WATCHES, & PERSONAL EFFECTS EXPENDITURES	1%
HOUSE & GARDEN TOOLS/EQUIPMENT EXPENDITURES	1%

NOMINAL WAGES CONTINUED TO EXPERIENCE STRONG GROWTH

CHANGE IN RETAIL SALES CATEGORY 2019 VS 2023

Source: HCSO, Moody's Analytics and Cushman & Wakefield Research

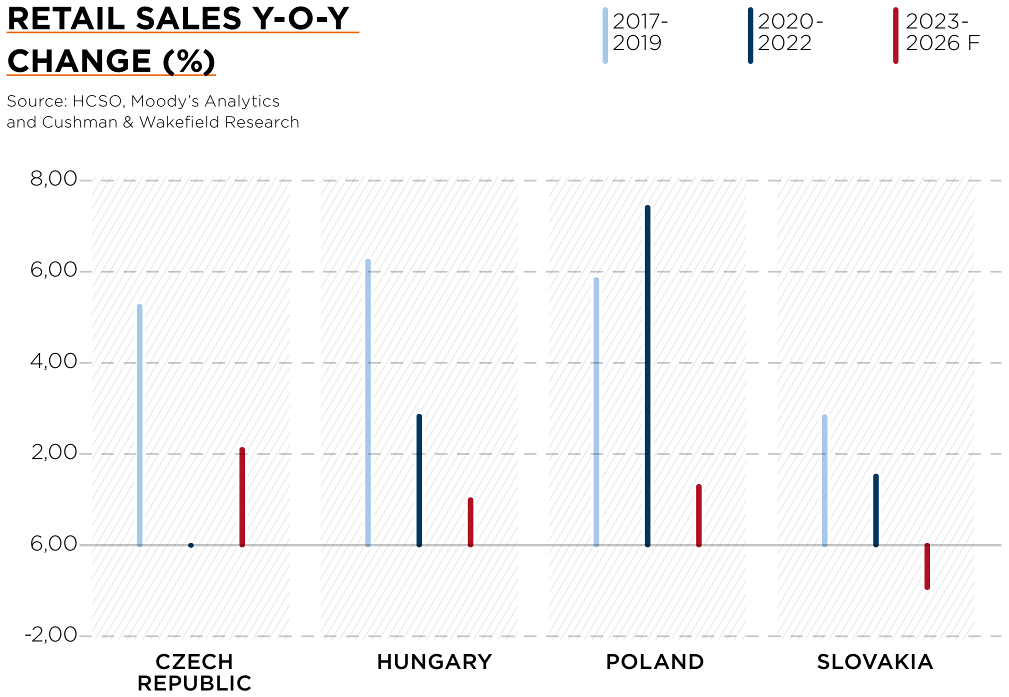


Interestingly, online sales have seen the most substantial improvement compared to 2019, soaring by 101% and constituting 8.1% of total sales from January to November 2023. In a high inflation environment, food and beverage sales have seen robust growth at 67%, followed by spending on medicine at 59%.

Despite the challenges, total retail sales are forecasted to grow at an average annual rate of 1% over the 2023-2026 period, surpassing the EU zone and reflecting a strong expansion in the region.

RETAIL SALES Y-O-Y CHANGE (%)

Source: HCSO, Moody's Analytics and Cushman & Wakefield Research

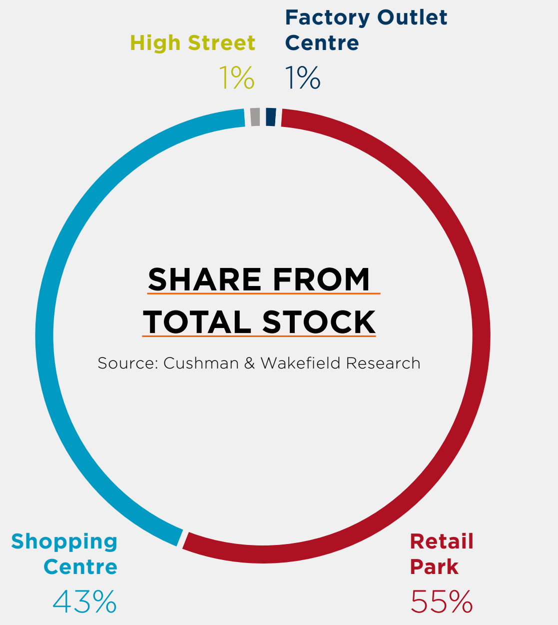


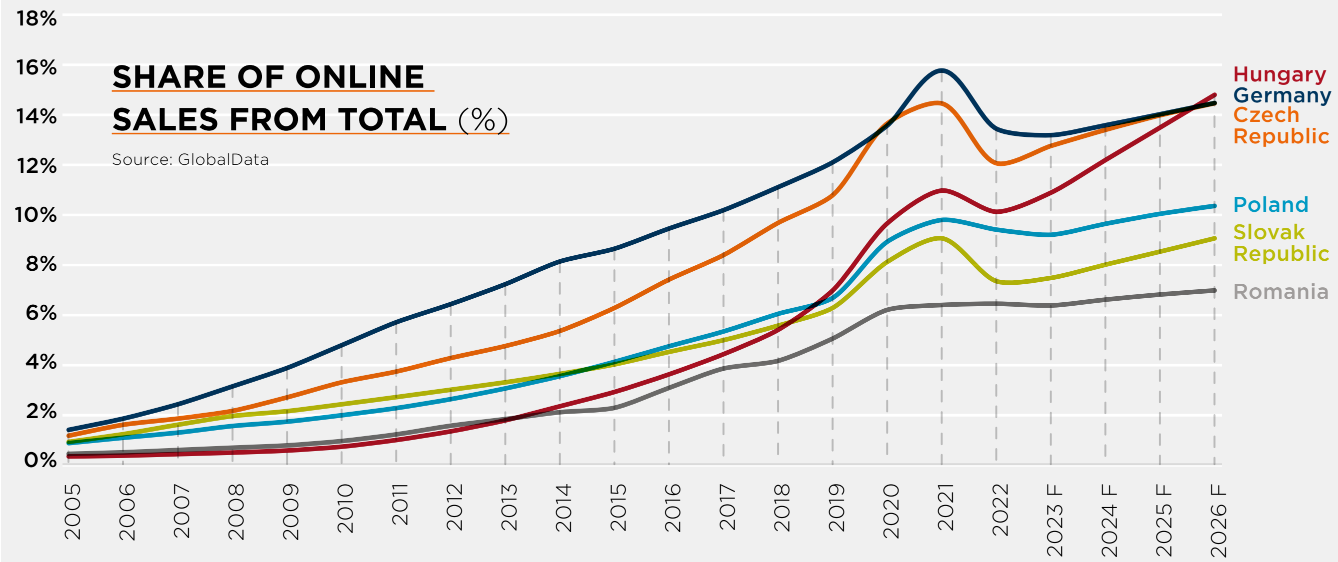
CUSHMAN & WAKEFIELD

RETAIL DYNAMICS IN HUNGARY: BALANCING TRADITIONAL DOMINANCE, ONLINE GROWTH, AND NEW MARKET ENTRANTS

Brick-and-mortar stores maintain their dominance in the retail landscape, accounting for over 90% of total retail sales. Despite the significant surge in online sales during the pandemic, which saw their share increase from 6% in 2019 to 8.1% by the end of 2022, with growth rates of 45% in 2020 and 18% in 2021, followed by a contraction. We anticipate the pace of online growth to revert to pre-pandemic levels, projecting that online sales will capture approximately 14.8% of total retail sales by the end of 2026, aligning with levels seen in Germany and the Czech Republic.

In terms of volume of retail stock, retail parks and shopping centre schemes reign supreme, accounting for 98% of stock.





NUMBER OF NEWCOMERS (2019-2023)

Source: Cushman & Wakefield Research

From an occupational perspective, Hungary continues to attract international newcomers into its retail sphere. In 2023, Hungary welcomed seven additional brands, including Sports Vision and Jack & Jones, choosing Westend for their first Hungarian outlets. DINO Park made its debut at KÖKI, while Starbucks introduced its first Drive Through at Market Central Ferihegy, and WHSmith opened its doors at Liszt Ferenc Airport. Closing out the year, Polish jewellery retailer W.kruk entered the market with its flagship Hungarian stores in December.

These entries follow other new names since 2021, including Bonami, a renowned Czech furniture brand, which opened its inaugural store in Arena Mall, and HalfPrice, a member of the CCC Group, establishing its presence in Vörösmarty 1. 2022 saw Mesopotamia, a Romanian fast-food chain expanding into Westend, and Intimissimi Uomo, debuting in Fashion Street, whilst JD Sports set up shop in Árkád shopping centre.

Across the 2019-2023 period, a total of 35 brands entered Hungary's retail arena, with fashion labels leading the charge. Looking ahead to 2024, all eyes are on PRIMARK, set to unveil its flagship 4,300 sq.m store in Arena Mall after meticulous preparations. Meanwhile, mass-market giants like JYSK, KIK, and Sinsay continued their expansion, reinforcing their presence with new store openings in 2023.

"HUNGARY CONTINUES TO ATTRACT INTERNATIONAL NEWCOMERS INTO ITS RETAIL SPHERE.

WITH TOURISM REBOUNDING STRONGLY, PERFORMANCE WILL CONTINUE TO IMPROVE

SPECIFICS	VÁCI UTCA & VÖRÖSMARTY TÉR	FASHION STREET	ANDRÁSSY ÚT
ABOUT THE LOCATION	The main pedestrian thoroughfare in the city. Lively mass market shopping destination and an important tourist attraction	It connects Vörösmarty tér and the Deák Ferenc tér public transport hub.	The grandest avenue in the city and a UNESCO World Heritage Site.
SEGMENT	Mass market	Medium / Up market	Up market / Luxury
CONSUMER PROFILE	Local & Tourists	Local & Tourists	Local & Tourists
MARKET SIZE (SQ M)	35,000	9,000	34,000
AVERAGE RENT (EUR/SQ M/MONTH)	80-130	80-110	30-60
PRIME RENT (EUR/SQ M/MONTH)	130	110	60
PRIME RENT	LP	Confidential	Q2
FOOTFALL PER DAY (pre-Covid)	35-40,000	30-35,000	15-20,000
MAIN TENANTS	H&M, Zara, Bershka, C&A, HalfPrice, Douglas, Mango, Tezenis, Humanic	Hugo Boss, Tommy Hilfiger, Lacoste, Massimo Dutti, Zara Home, Oysho, COS, Calvin Klein, KFC, Starbucks	LV, Gucci, Jimmy Choo Max Mara, Zegna, Moncler, Nespresso, Boggi, Hublot
NEW ENTRANTS	Foot Locker	Helly Hansen, Trend Optika	Jimmy Choo, Max & Co.

HIGH STREET RETAIL: STRIVING FOR FULL RECOVERY

Budapest's primary high street hubs, comprising Váci utca & Vörösmarty tér, Fashion Street, and Andrássy út, have traditionally relied on international tourism for their vitality. With tourism rebounding strongly following the pandemic, it is hoped that performance will continue to improve. Fashion Street demonstrates this optimism – achieving full occupancy in 2023 with all units successfully rented out.

The city centre has seen no new completions over the past three years, although there is one notable ongoing development project: a new development at the location of the old Fontana building, which is set to offer 3,000 sq. m of retail space upon its completion by the end of 2024. Meanwhile, the Main Street project, a substantial multi-functional scheme, remains in the planning stages, and will bring significant changes to the area dynamic once realised. The Budapest Municipality has initiated the planning phase for the refurbishment of the 'Nagykörút' area, encompassing the stretch of the Inner Ring Road between Mester utca and Nyugati Square. This anticipated project aims to enhance the area through green initiatives and gentrification efforts. According to publicly available information, refurbishment works are slated to commence no earlier than 2025.

Hungary has 56 registered shopping centres, collectively offering 1.31 million sq. m of Gross Leasable Area (GLA), equating to a saturation rate of 135 sq. m GLA per 1000 inhabitants. While Hungary's GLA per capita falls below the CEE average of 199 sq. m GLA per 1000 inhabitants, its regional markets are considered well-served. Major cities with populations exceeding 100,000 boast established, good quality centres, with saturation levels ranging from 300 to 660 GLA per 1000 inhabitants.

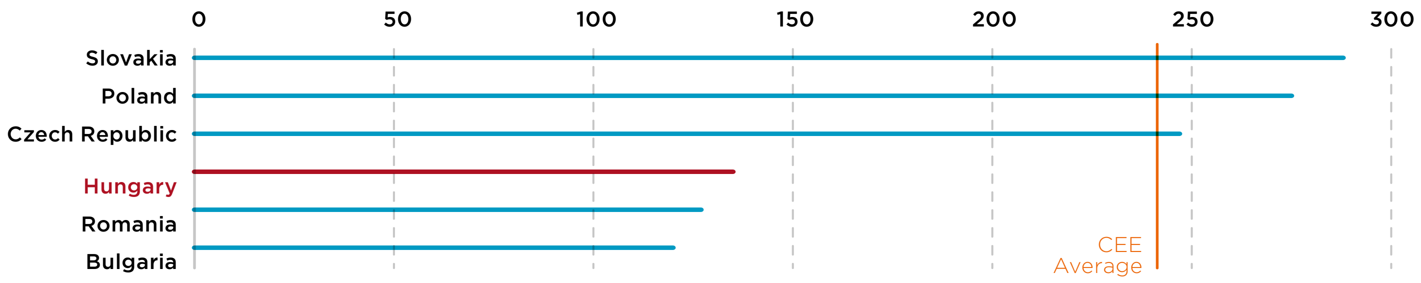
56 EXISTING SC SCHEMES IN HUNGARY

28 EXISTING SC SCHEMES IN BUDAPEST

1 SC SCHEMES UNDER CONSTRUCTION IN BUDAPEST

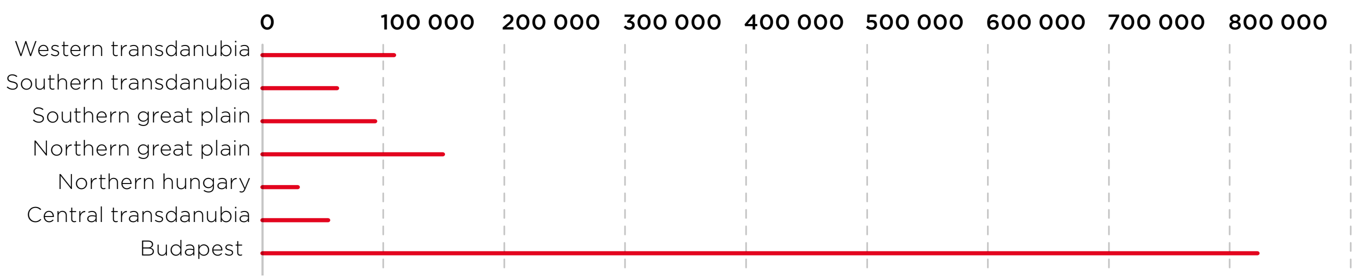
SC GLA (SQ. M)/1,000 POPULATION - COUNTRY LEVEL

Source: Cushman & Wakefield Research



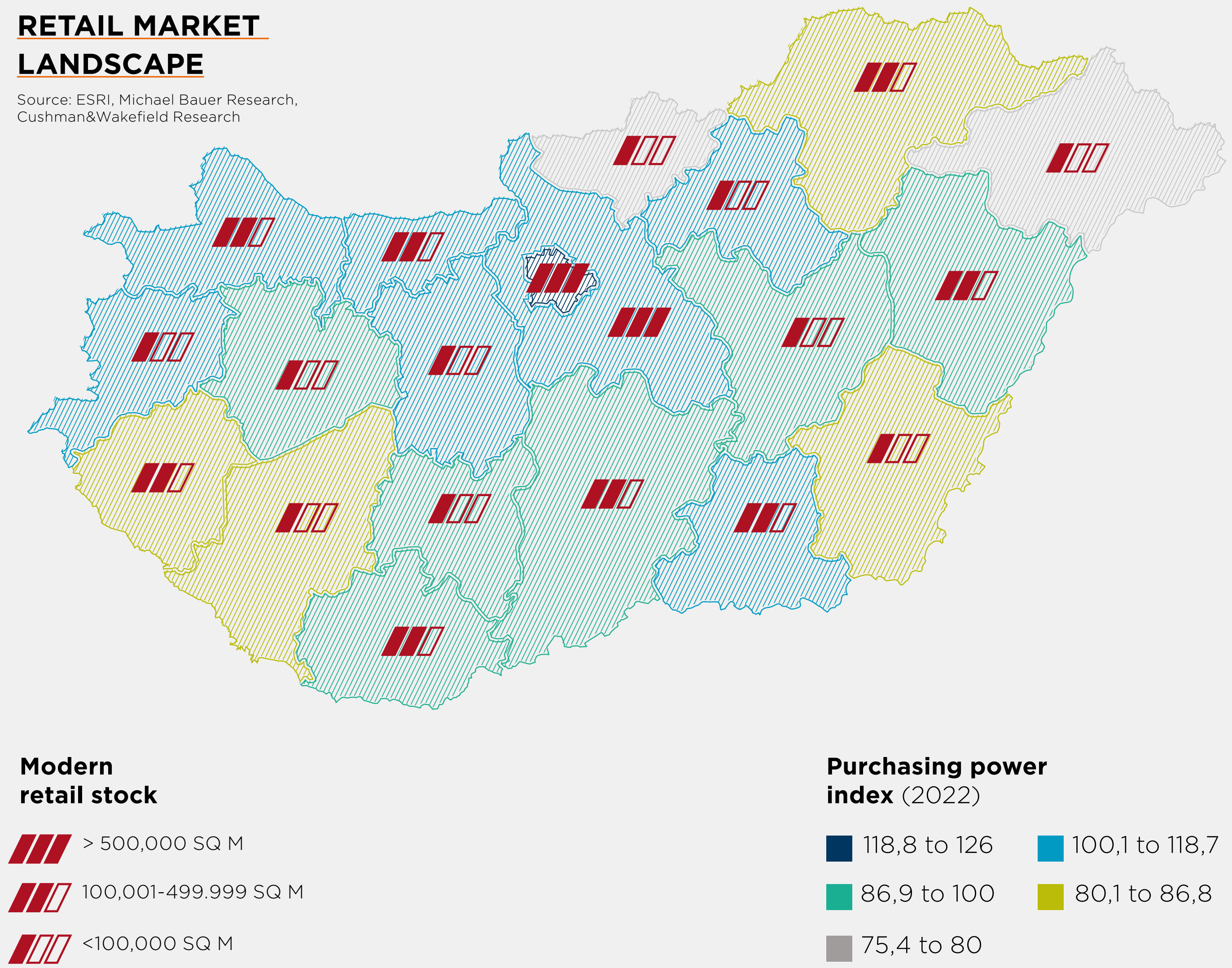
SHOPPING CENTRE STOCK (SQ. M), HUNGARIAN COUNTIES

Source: Cushman & Wakefield Research



RETAIL MARKET LANDSCAPE

Source: ESRI, Michael Bauer Research, Cushman&Wakefield Research



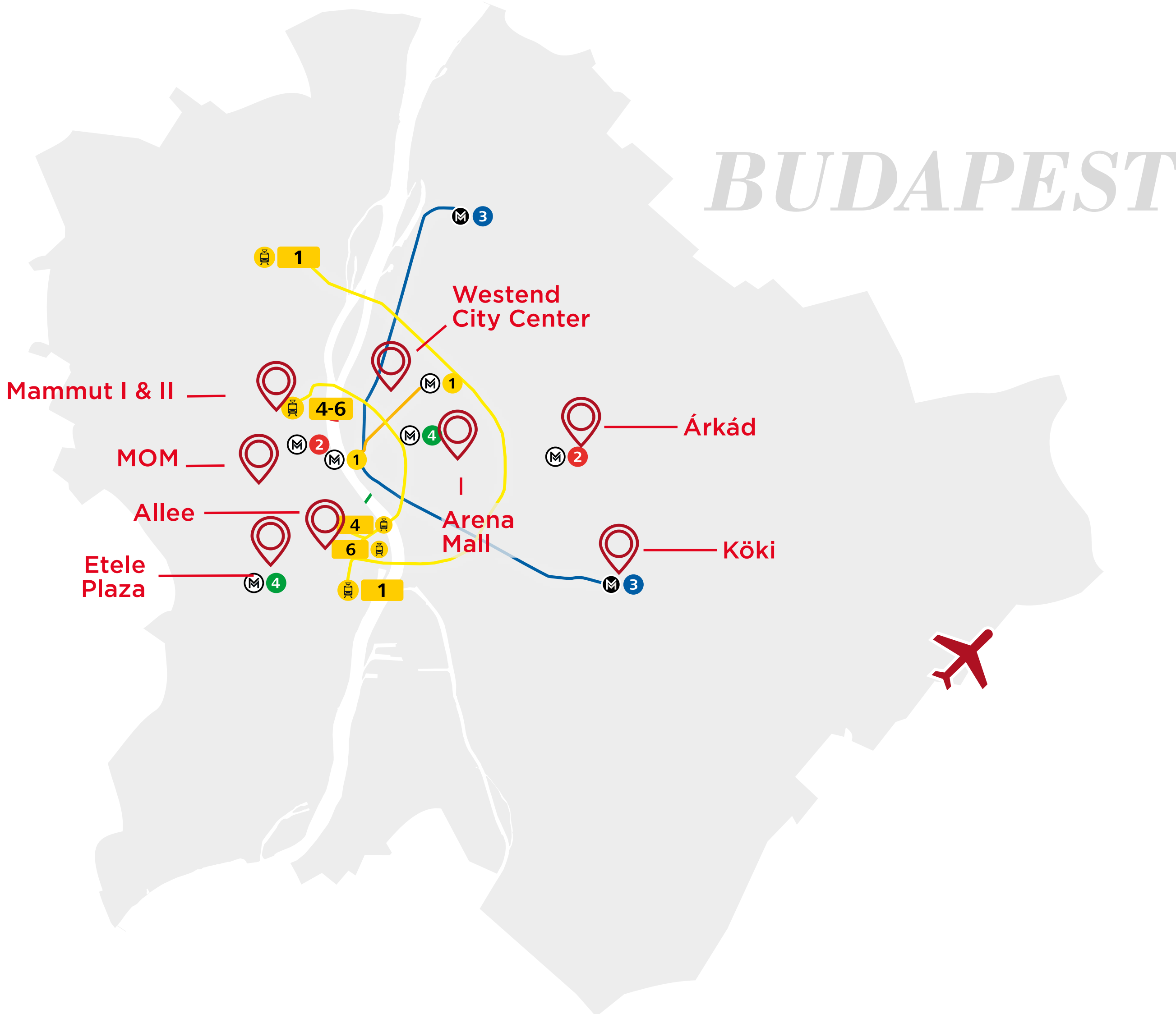
MARKET STABILITY: HUNGARY'S SHOPPING CENTRES NAVIGATE WITHOUT OVERSUPPLY CONCERNS

BUDAPEST’S RETAIL LANDSCAPE:

EIGHT DOMINANT SHOPPING CENTRES

Budapest holds a commanding presence in Hungary’s shopping centre landscape, hosting over 60% of the total stock. However, among the 22 shopping centres scattered throughout the capital, only 8 meet institutional standards: Etele Plaza, Westend City Center, Arena Mall, Arkad Center, Allee Shopping Center, Mammut I & II, MoM Park, and KÖKI.

SCHEME	*SIZE (GLA SQ M)*	*AVERAGE RENT (EUR / SQ M / MONTH), 100-150 SQ M UNIT*	*CONSUMER PROFILE*	*NEW TENANTS*	*YEAR OPENED*
WESTEND CITY CENTER	50 000	65-80	Local & Tourists	NIKE, Foot Locker, Mesopotamia, Frei Cafe, Lovisa, Teilor	1999
ARÉNA MALL	68 000	55-70	Local & Tourists	Primark (opening in May 2024) Lego	2007
ALLEE	46 700	55-75	Local & Tourists	Tatuum, Teilor, Pupa, Amber’s Bakery and Cafe, Caffé Vergnano, Laborpont, Café Crema, Gaudí, Emily Éclair	2009
MAMMUT I-II	56 000	40-55	Local	HalfPrice, Pepco, Miniso, Barber Shop, Samsung, Sizeer	pre-lease
ÁRKÁD BUDAPEST	68,000	35-45	Local	Tatuum, Gardrobe Mini, Ofotért, Selowei, Story Shop, Yoyoso, Kreatív Hobby, KitchenShop, eMAG offline bolt	pre-lease
MOM	31,000	30-50	High end at the most affluent area	Ecco, Elysées, Zing Burger, Norbi Update, Trattoria Corridor: Raw Land Factory, Yumybo, Dyson Demo Zone, Flódnis & Angelo Café	pre-lease
ETELE PLAZA	55,000	35-45	Local	NIKE, Lovisa, Foot Locker	pre-lease
KÖKI	72,000	25-30	Local	Douglas, Miniso, Lipóti Pékség	pre-lease



CUSHMAN & WAKEFIELD

While Hungary's modern retail provision still trails behind that of Western European or even Central and Eastern European capitals, the pace of new developments has markedly slowed since the post GFC period. Notably, the completion of Etele Plaza in 2021 stands as the sole new project since 2013, with no other shopping centre initiatives currently underway. Low post-GFC supply, combined with restrictions on new development means that Hungary maintains a relatively resilient position, characterised by a low saturation of shopping centres.

Recognising the evolving landscape of retail, landlords of existing facilities are undertaking refurbishment projects aimed at cultivating a more sophisticated, contemporary, and visually appealing shopping environment. Simultaneously, they are adapting to the evolving requirements of retailers. Mirroring trends in Western Europe, there's a growing emphasis on the 'experiential' aspect of retail, with a heightened focus on food and beverage offerings and leisure amenities. Following MOM Park's uplift, the latest examples include the comprehensive refurbishments of centres like Campona and GoBuda (formerly EuroCenter), both completed in 2022 .

The development market's current emphasis lies in repositioning and refurbishing aging infrastructure; 93% of the existing shopping centre stock is over a decade old and struggles to align with modern consumer and retailer demands. Notably, the renovation of the Corvin Áruház has recently been completed, introducing 7,300 sq. m of refreshed retail space. Furthermore, another noteworthy project is currently underway, showcasing a similar integration of multifunctional elements alongside retail components. This project, known as the Zenit Corso, stands as a significant development boasting 11,000 sq.m retail element.

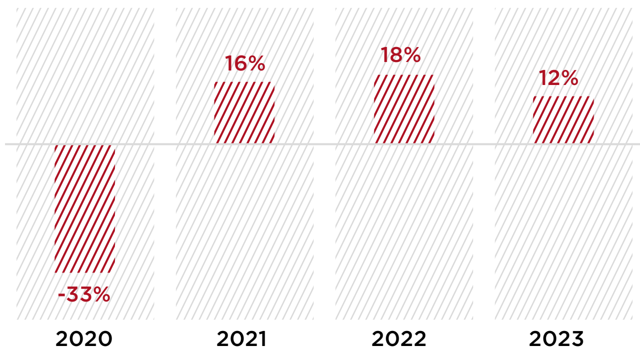
	PROPERTY	SUBMARKET	DELIVERY DATE	TYPE	SIZE
NEW SUPPLY	GOBUDA Mall	North Buda – Budapest	2022	Refurbishment	25 000
	Campona	South Buda – Budapest	2022	Refurbishment	40 000
	Corvin Áruház	Central Pest – Budapest	2023	Refurbishment	7 300
PIPELINE	Zenit Corso *	Non-Central Pest – Budapest	2025	New	10 000
	Centrale	Non-Central Pest - Budapest	2026	New	8 000

In terms of tenant activity, within prime centres, large international brands are making moves, albeit cautiously, and primarily under favourable terms. Meanwhile, in mid-range schemes, the discount sector remains an active participant.

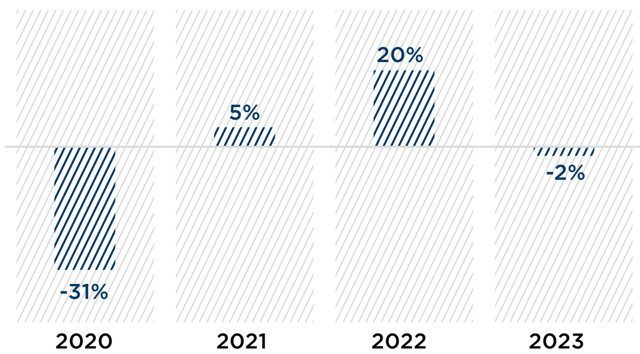
The performance of shopping centres exhibited healthy growth throughout the previous year. As of year-end 2023, turnover within the top-performing schemes trailed the pre-pandemic benchmark by merely 10%, while registering a remarkable 12% increase compared to 2022.

Although average footfall remains slightly below 2019 levels, there has been a notable improvement, in turnovers, indicating a shift towards purposeful shopping visits with larger basket sizes.

Y-O-Y CHANGE OF TURNOVERS, PRIME SHOPPING CENTRES



Y-O-Y CHANGE OF FOOTFALLS, PRIME SHOPPING CENTRES



Source: Cushman & Wakefield Research

THE PERFORMANCE OF SHOPPING CENTRES EXHIBITED HEALTHY GROWTH THROUGHOUT THE PREVIOUS YEAR.

RESILIENT RETAIL WAREHOUSING MARKET:

STRONG INTEREST FROM RETAILERS AND CUSTOMERS

RETAIL PARK*
800,900 sq. m

RETAIL WAREHOUSE*
884,500 sq. m

TOTAL RETAIL WAREHOUSING STOCK*
1,685,400 sq. m

RETAIL PARK RENTS

BUDAPEST AND SURROUNDINGS
EUR 10.0-13.0 / sq m / month

COUNTRYSIDE
EUR 6.0-9.0 / sq m / month

DUNAKESZI CLUSTER
52,700 sq. m

BUDAÖRS CLUSTER
145,250 sq. m

VECSÉS CLUSTER
44,000 sq. m

SOROKSÁR CLUSTER
76,400 sq. m

The Hungarian retail warehousing market witnessed significant development since the latter half of the 1990s, experiencing rapid expansion until 2008. Initially, first-generation retail parks were predominantly developed by hypermarket owners. Subsequently, the strip-mall concept emerged, bearing brand names such as Stop-Shop, Family Center, Zone, City Market, and Park Center. Following the downturn post-2008, new developments dwindled considerably but the sector has been on a steady growth trajectory since 2015. There has been a noticeable uptick in demand for existing schemes, prompting the conversion of large-scale boxes into strip malls as well as driving the development of new standalone schemes.
In terms of new supply, Budapest has seen a notable influx of new stores, primarily from Aldi and Lidl in recent years. Meanwhile, DIY stores have begun to extend their presence into secondary cities, signalling a growing tenant base. Among the significant recent handovers are the 4,500 sq. m Gallery Center in Mosonmagyaróvár and the 11,000 sq. m retail park scheme in Kaposvár, developed by SES. Overall, only 7,610 sq. m of retail park space was delivered in 2023 across two schemes, as outlined below.

PROPERTY	SUBMARKET	DELIVERY DATE	TYPE	SIZE
OBI & DM – Kiskunhalas	Southern Great Plain	Q2 2023	New	5 610
JYSK & KIK – Nagyatád	Southern Transdanubia	Q2 2023	New	2 000

2024 will see 40,000 sq. m of retail park space through two redevelopment projects and one new development scheme, as outlined below.

PROPERTY	SUBMARKET	DELIVERY DATE	TYPE	SIZE
Antana P1	Budaörs	2024	Refurbishment	12,300
Dunakeszi Auchan	Dunakeszi RW Cluster	2024	Remodelling & Extension	20,000
Praktiker	Central Transdanubia - Veszprém	2024	New	7,700

The prime retail warehousing clusters, known for their exceptional performance, are situated on the outskirts of the capital, near major national motorways. Strategically positioned along both sides of the M1 motorway leading to Vienna, Budaörs stands out as Hungary's largest Out of Town hub, featuring a collection of retail parks, hypermarket malls, and standalone units. The retail clusters of Dunakeszi and Soroksár also command significant popularity, serving as dominant retail warehouse hubs within the Budapest area.

These key hubs serve as focal points for various consumer needs, hosting a diverse range of anchors such as food, furniture, and DIY stores, complemented by sports, health, beauty, mass fashion, and discount outlets. Noteworthy hypermarket chains including Tesco, Auchan, Interspar, and Metro maintain a dominant presence in Hungary, with Tesco leading the sector with a 30% market share. Discount supermarkets, particularly Aldi and Lidl, continue their assertive expansion in both the capital and secondary cities. Leading electronics retailers include Media Markt (owned by Metro) and Euronics, while OBI, Praktiker, and Bauhaus dominate the DIY sector.

Pepco, made its debut in 2015 and rapidly expanded to reach its 100th store milestone within two years. Amongst the furniture retailers, IKEA, boast three stores, unveiled its latest establishment in 2017, setting a record as the including its 34,000 sq. m. Soroksár store – the largest in the CEE region. MömaX has opened nine stores since its market entry in 2015 and acquired all Kika stores in CEE in 2019, continuing its operations under the XXXLutz brand. Other notable retail warehouse retailers include KiK, Fressnapf, CCC, Rossmann, and Eurofamily, while emerging profiles such as children's amusement and theme parks, along with service providers, are gaining traction in the sector.

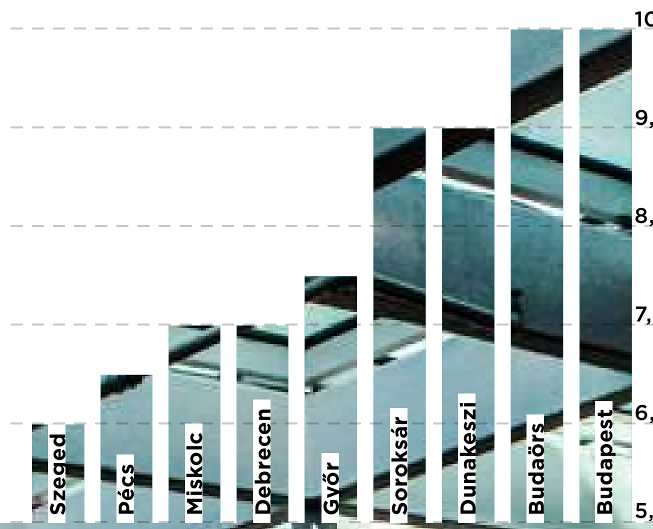
Amidst the challenges posed by the Covid crisis, retail parks emerged as beacons of resilience, maintaining their appeal to both tenants and customers. Notably, the spotlight of the market has shifted significantly, with a notable trend being the growing interest of newer brands that traditionally favoured shopping centres but are now exploring opportunities within retail parks.

Rental rates have demonstrated a consistent upward trend across all prime locations, experiencing an annual average increase of 5.4% nationwide. This upward trajectory reflects the enduring demand and attractiveness of retail parks.

RETAIL PARKS EMERGED AS BEACONS OF RESILIENCE

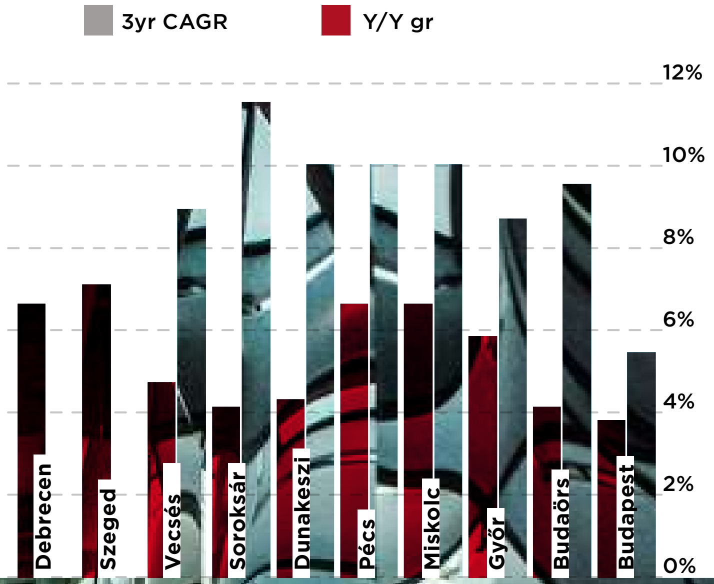
RETAIL WAREHOUSING PRIME RENTS EUR / SQ M / MONTH

Source: Cushman & Wakefield Research



RETAIL WAREHOUSING PRIME RENTS EUR / SQ M / MONTH[1]

Source: Cushman & Wakefield Research



[1] Note: Due to the recent inclusion of Debrecen and Szeged in our tracked locations, the three-year Compound Annual Growth Rate (CAGR) data is not currently available for these areas.

DEFINITIONS

PURCHASING POWER:
Purchasing Power refers to the disposable income (i.e. income after taxes and social contributions, including received transfer payments) of a certain region's population. Consequently, Purchasing Power consists of net incomes from employment and assets (after taxes and social contributions), pensions, unemployment benefits, benefit payments and other national transfer payments.

Source: Michael Bauer Research

PURCHASING POWER INDEX:
A per capita index of 100 indicates the area's purchasing power is in line with the national average and index above or below this average shows the amount of deviation from the average, positively or negatively.

Source: Michael Bauer Research

PRIME YIELD:
The initial yield estimated to be consistently achievable as an annual percentage income return for a property of the highest quality and specification in the best location, fully let and immediately income-producing on present market terms at the survey date. It is an indicator of the tone in the market and the associated level of risk attached to that investment.

HIGH STREET RETAIL UNIT:
A High Street unit represents an actual or theoretical shop in a prime retail location. The market could be a specific street or a broader area. Data should reflect the standard unit prevalent in that market. Thus, the typical frontage and depth may vary from market to market.

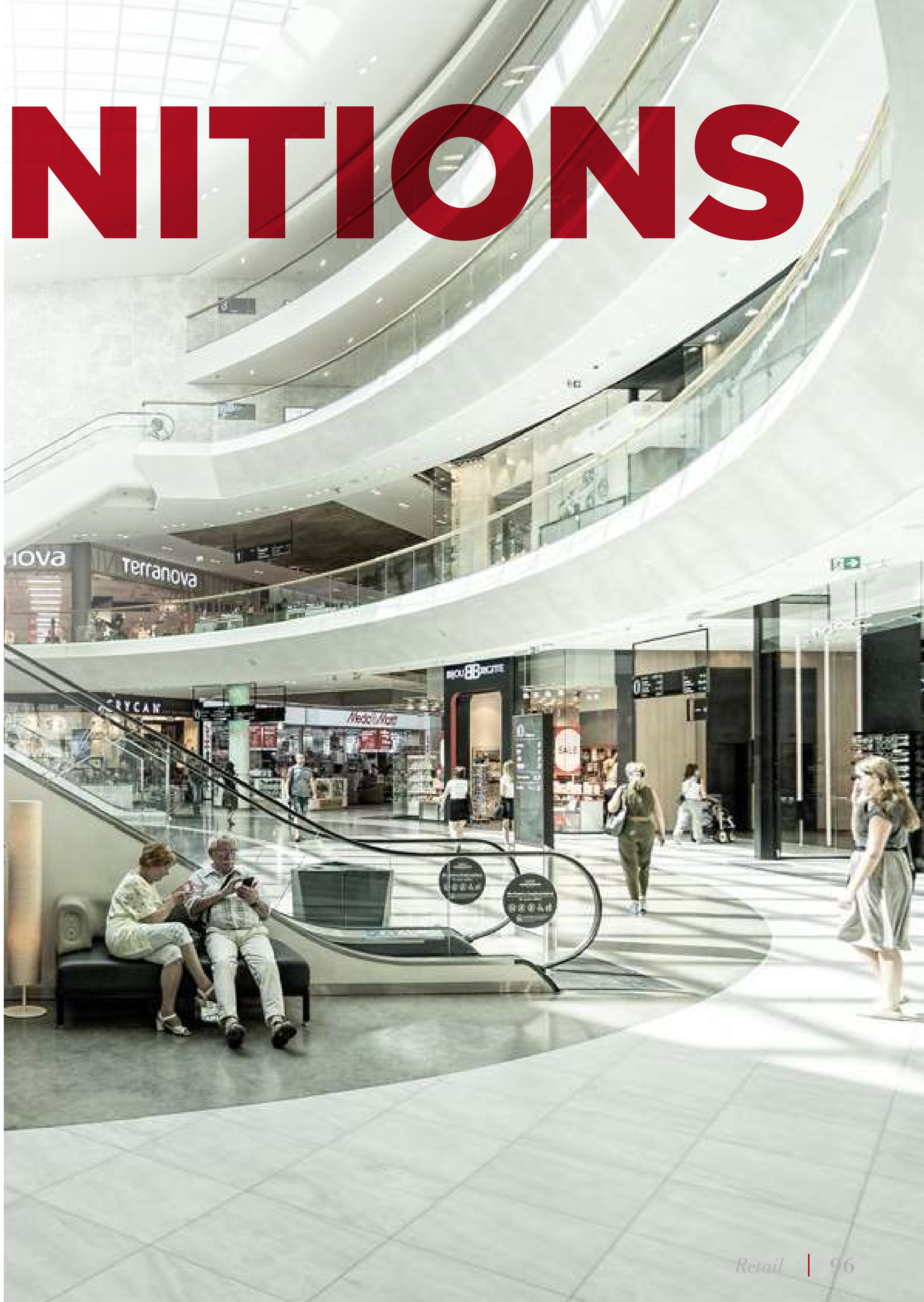
SHOPPING CENTRE:
Shopping Centre is a centrally managed purpose-built retail facility comprising units and communal areas, with a Gross Lettable Area (GLA) equal to or over 5,000 sq m. The centre can include a mix of shops, restaurants, service and leisure operators.

RETAIL PARK:
A retail development which:

- is purpose-built typically by a single developer with a common design,
- comprises at least two warehouse-type units,
- has a minimum total GLA of 5,000 sq m,
- has car parking facilities shared by all units,
- has the majority of units occupied by professional retailers.

Given the nature of their location edge/out-of-town and type of retail offer, accessibility by car is important for the vast majority of retail park schemes.

PRIME RENT:
Consistently achievable headline rental rate related to a retail unit of size 100–250 sq m located along the High Street (i.e. Prime High Street Rent) or in the prime shopping centre (i.e. Prime Shopping Centre Rent). The prime rent reflects the market's tone at the top end, even if no new leases have been signed within the survey period. One-off deals that do not represent the market are disregarded. The rent is given as a base rent, i.e. no service charge, marketing charge, utilities and tax is included. Frontage zoning is not adopted across CEE.



HOSPITALITY

EMBRACING THE STORM: FINDING CLARITY IN CHAOS

Image source: https://www.cushmanwakefield.com/en/czech-republic/insights/hotel-investment-scene-in-cee 2023-Hotel_Investment-report-in-CEE.pdf

Following 2022, a year marked by adversity and turmoil but also notable for a stronger than expected recovery in the hotel industry, 2023 continued to pose a series of challenges. However, as stated in last year's outlook edition "no pressure, no diamonds", this adversity prompted hoteliers to evolve, innovate, and adapt to a new industry standard, improving operating structures and focusing on driving higher rates, while the occupancy was still in recovery.

Despite the sector's strong operational rebound, the Hungarian and European hotel investment markets have been impacted by unprecedented increases in financing costs as well as economic and geopolitical challenges. Nevertheless, the decrease in investment activity has been less pronounced compared to the broader real estate sector. This resilience can be attributed to various factors, with a key driver being the ongoing trend of investors shifting towards alternative asset classes, benefiting from structural changes in the economy and society, which, in the case of hotels, has been reinforced by the exceptional performance recovery, surpassing the pre-pandemic levels across most markets.

What significant shifts did the hospitality market in Budapest and CEE witness in 2023, and how did these impact the industry's recovery and long-term outlook? In this report, we explore the performance of the hotel industry and examine its prospects in this dynamic landscape.

"DESPITE THE SECTOR'S STRONG OPERATIONAL REBOUND, THE HUNGARIAN HOTEL INVESTMENT MARKETS HAVE BEEN IMPACTED BY UNPRECEDENTED INCREASES IN FINANCING COSTS AS WELL AS ECONOMIC AND GEOPOLITICAL CHALLENGES.

SUPPLY

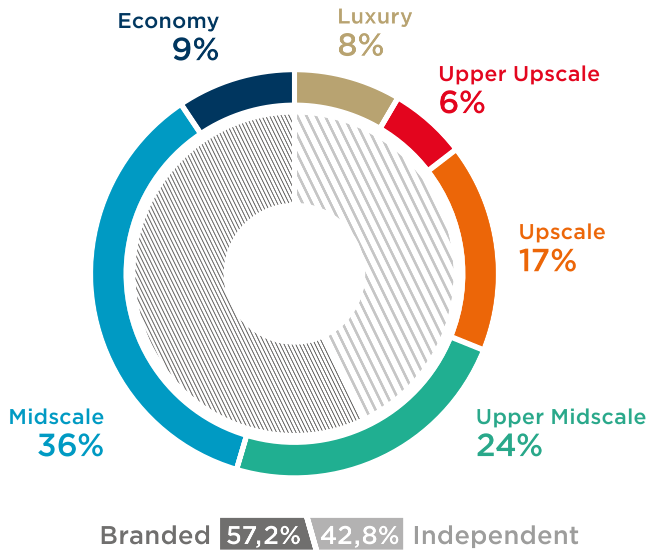
HIGH MARKET ATTRACTIVITY

From 2013 up until 2019, Budapest's hotel room supply showed modest growth year on year, with a CAGR of 1.2% and was continuously outpaced by the increasing demand at 4.49%, respectively. As of 2019, more consistently modern supply emerged whilst some of the outdated stock has been refurbished. Although disrupted by the pandemic, the new and refurbished supply gradually boosted Budapest's market attractivity on international scale.

Further to the 26,600 existing room stock, a 2.7% increase vs. 2022, ca. 2,517 rooms (weighted by the likelihood of opening) are in pipeline in addition to ca. 591 rooms under refurbishment, expected to open by 2026. This represents a ca. 6.95% supply growth or a CAGR of 2.3% over the next three years. However, the current market circumstances might cause certain hotel openings to be delayed or postponed for a later stage.

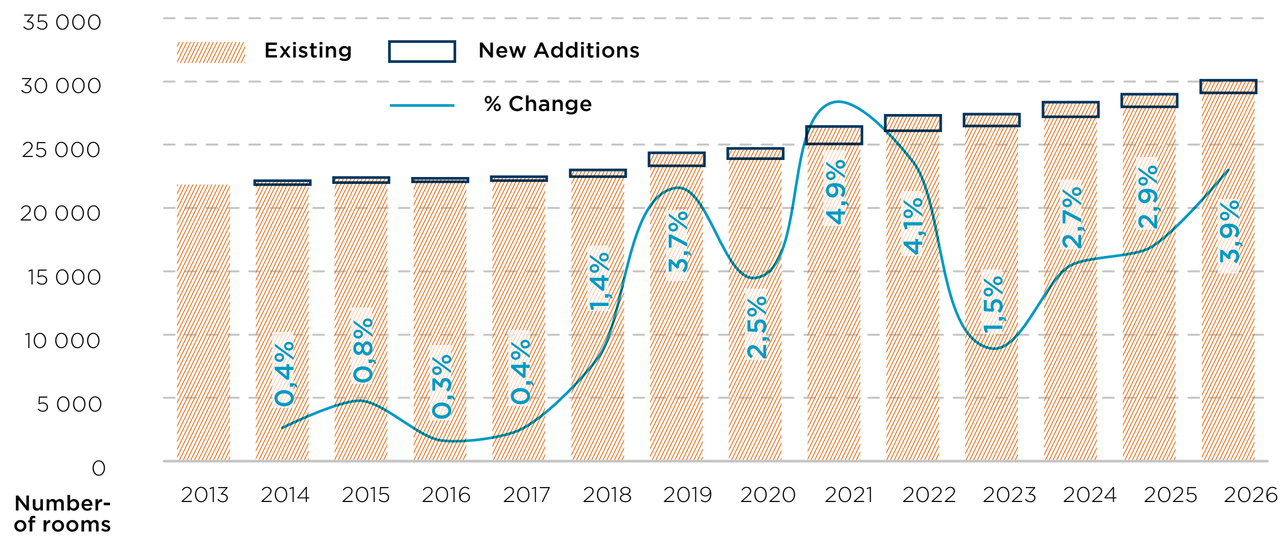
HOTEL SUPPLY PER CATEGORY

Cushman & Wakefield Research



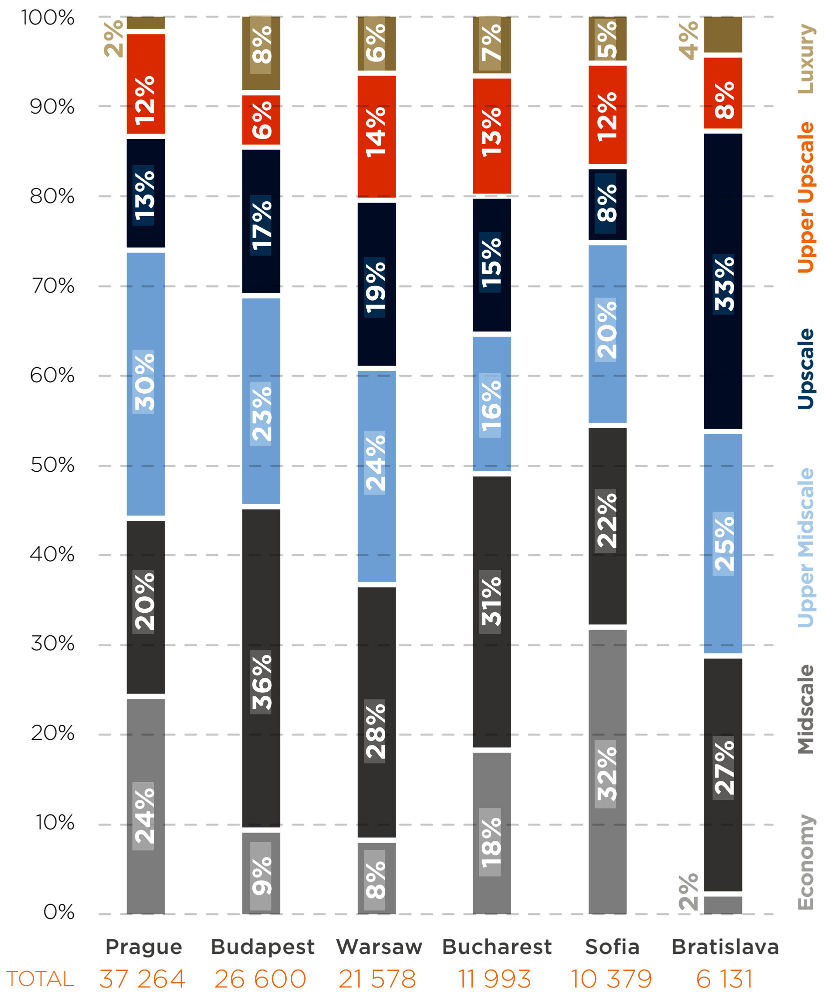
SUPPLY TRENDS BUDAPEST

Cushman & Wakefield Research



HOTEL SUPPLY BY CLASS

Cushman & Wakefield Research



Furthermore, the accommodation options in Budapest are complemented by the number of short-term rental units marketed on online platforms such as Airbnb or Vrbo. According to AirDNA, there are currently ca. 10,800+ active rental units (vs. 12,000 to 14,000 pre COVID-19) which are likely to increase during the seasonal months.

From an occupiers' perspective, C&W's annual conducted Hotel Operator Beat CEE 2023 showed that 77% of surveyed operators expressed very high or high interest in Budapest, making it the most attractive market in CEE. More information on the outcome of the survey may be found in the following pages.

DEMAND

GAS LEFT IN THE TANK

The demand in Budapest increased by 11.5% to 8.96 million overnight stays in 2023, but it fell short of recovering to 2019 levels by reaching only 84.3%, as indicated by Oxford Economics data. The demand is forecasted to surpass 2019 levels by 2025, reaching 105.3% compared to 2019, with international visitors contributing 87% and domestic demand making up 13%.

With the economies slowing down, inflation eroding real disposable income and surplus savings depleting, there are obvious concerns about hotel performance going forward. While these are serious headwinds, there are several reasons for optimism to believe the growing trend as per Oxford Economics forecast:

The labour market remains healthy, and consumers still have some excess savings. The unemployment rate across the euro area in September 2023 remained relatively low at 6.5%, just a 0.1pp increase from August and 0.2pp below the same time last year. Nominal wages in H1 2023 grew by 4.5% in Europe and by 5.3% in US (important source markets).

Euro currency (denominator of hotel room prices in capital cities and other regions across CEE) is likely to regain some ground against USD, but visits to Europe will continue to be attractive for American travellers compared to pre-Covid era of strong euro.

For many consumer groups, travel is moving away from being just “nice-to-have” discretionary spending and leaning towards the basic-needs category. This changes the views on how radically the economic slowdown could impact the hospitality sector and, to some extent, explains the recent resilience. Several consumer surveys indicate a continued desire to travel despite the economic challenges. According to the European Travel Commission’s (ETC) latest report, 71% of Europeans choose to either maintain or boost their travel expenditures[1]. Hotel commerce platform SiteMinder found that 91% of travellers intend to travel over the next 12 months at least the same amount as they did over the year past. Most (57%) intend to travel more[2]. Another study by Hilton Worldwide[3] found that 64% of global travellers would reduce their personal spending to prioritise leisure travel in 2024.

[1] https://etc-corporate.org/news/financial-pressures-shape-europeanstravel-plans-in-late-2023-and-early-2024/
[2] https://www.siteminder.com/changing-traveller-report/enduringexplorer/
[3] https://stories.hilton.com/releases/2024-trends-report

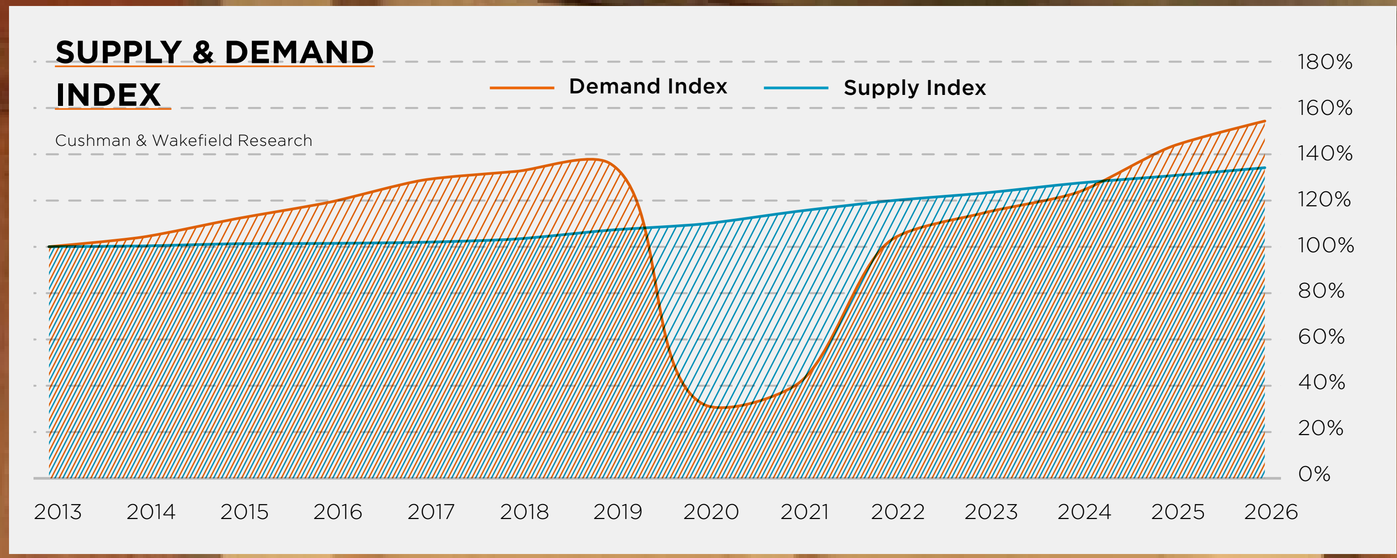
Air seat capacity for inbound travel to Europe nearly reached pre-pandemic levels during Q3 and is on an upward trend ahead of Q4, reaching 96% and 82% of 2019 levels in Western and Eastern Europe, respectively (mid-November). According to Airport Council International, European airport passenger traffic is expected to surpass 2019 by 1.4% in 2024 and 3.9% in 2025[4].

While video calls and virtual meetings are here to stay, business travel and conferences are recovering, fueled by the need to meet clients and remote colleagues in person. According to a recent white paper by MasterCard, 88% of travel decision-makers believe that business travel is critical for driving their organization's growth, and 90% believe that their growing hybrid/remote workforce will significantly increase their business travel[5].

The impact of China's re-opening in mid-2023 has so far not been as robust as expected due to their domestic economic challenges. However, as Chinese travelers have not released their revenge travel" to Europe yet, the arrivals are forecasted to increase by 82% in 2024, according to Oxford Economics, generating over 33 million overnights. This is likely to boost the hotel performance in key tourism hotspots for Chinese travellers, also affecting the CEE region

The data based on traditional segmentation of guests into leisure and corporate might not tell the full picture. Driven by remote and hybrid work arrangements, more people are either adding leisure stays ahead or after their business trips ("blended travel"), staying in hotels due to long-distance commuting ("super-commuting") or working while on holidays ("workcations"). Increasing shoulder night occupancy and a lengthening of the average transient stay indicate these trends are enduring. According to a Deloitte survey, on average, travellers will add five travel days across the holiday season if able to work remotely.

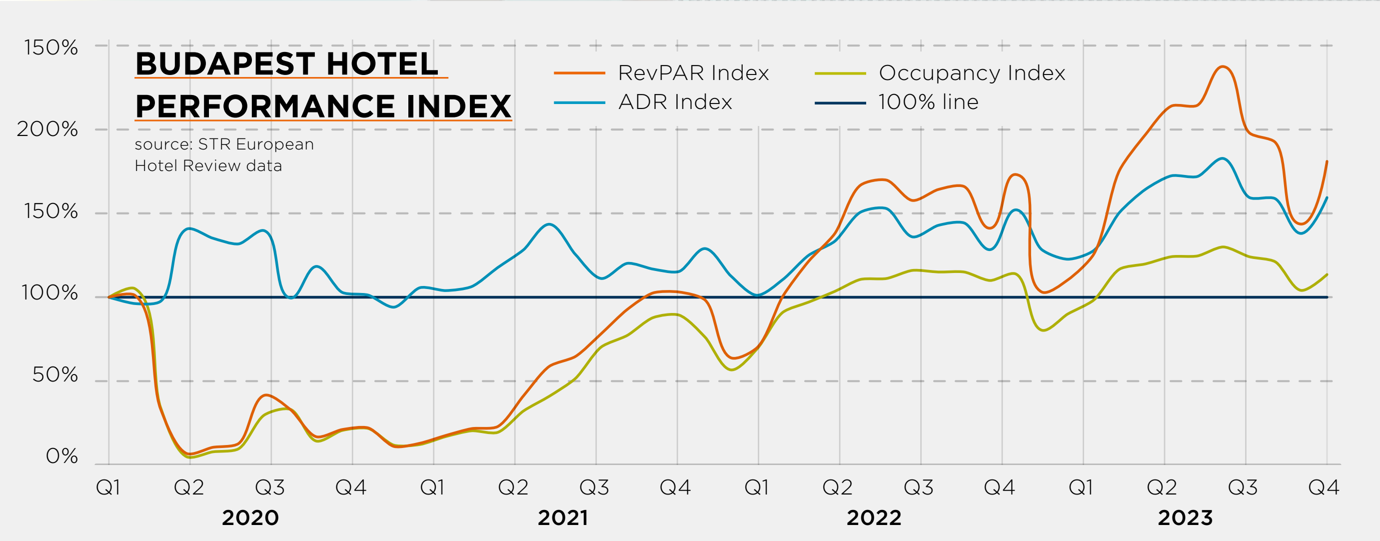
THE DEMAND IN BUDAPEST INCREASED BY 11.5% TO 8.96 MILLION OVERNIGHT STAYS IN 2023

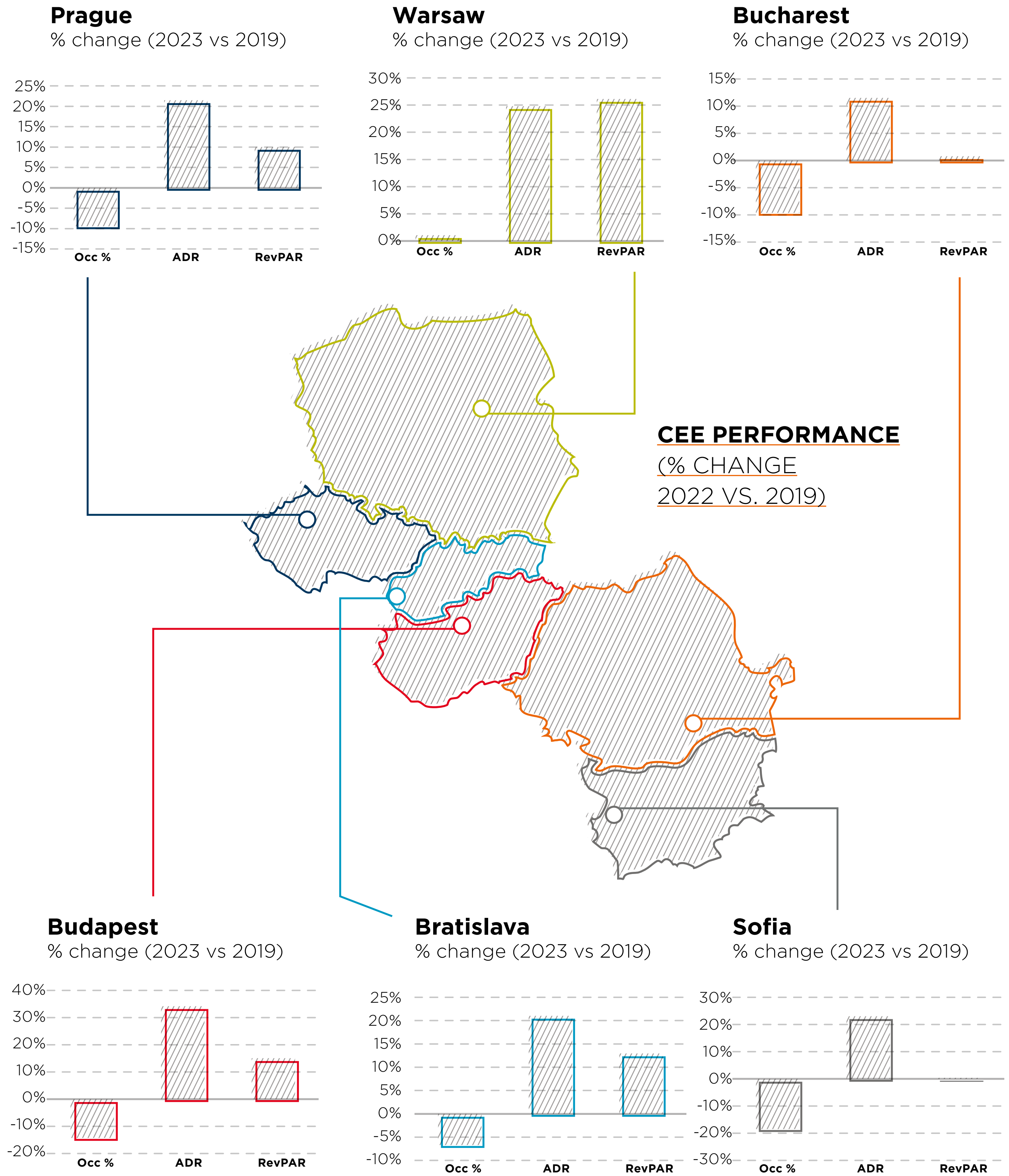


[4] https://www.aci-europe.org/downloads/resources/ACI%20EUROPE%20Airport%20Traffic%20Forecast%20Oct23.pdf
[5] https://www.mastercard.com/news/insights/2023/navigating-global-business-travel/

In 2023, Budapest stood out as the top-performing market among the CEE capital cities* in terms of RevPAR for the third year in a row. It achieved an occupancy level of 67% and an ADR of EUR 122, culminating in a RevPAR of EUR 82. Compared to 2022 and 2019, Budapest's RevPAR saw a robust increase of 28% and 15%, respectively, propelled by a 15% and 34% rise in ADR. However, occupancy levels still lagged 14% behind those of 2019.

A similar trend was observed across the main capital cities in the CEE region in 2023, where occupancy levels were down by 8%, but the ADR rose by nearly 25%, leading to a 14% increase in RevPAR compared to 2019. On a European scale, there was a 4% decrease in occupancy, but a 27% increase in ADR, resulting in a RevPAR growth of almost 22%, respectively.





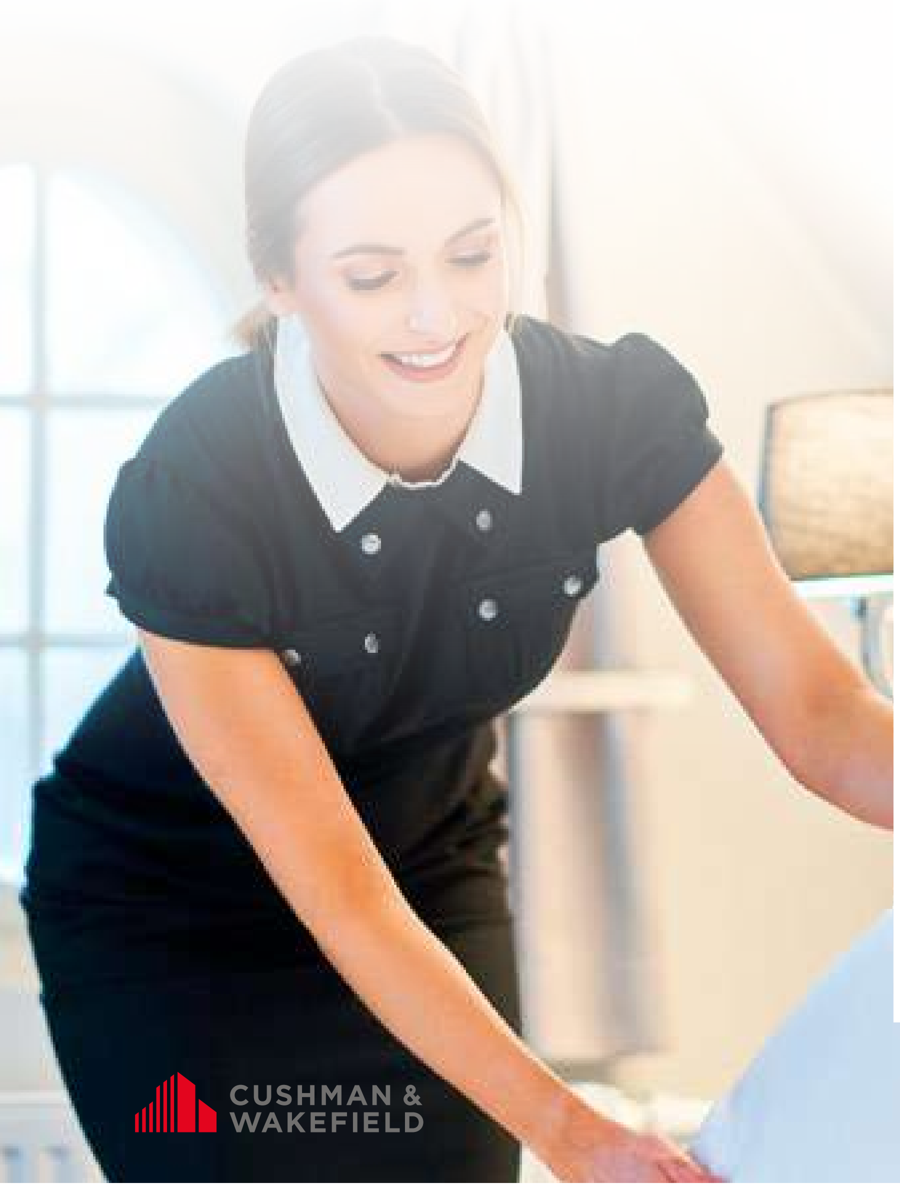
PERFORMANCE

THE STRONGEST MARKET IN CEE

Image source: https://www.cushmanwakefield.com/en/czech-republic/insights/hotel-investment-scene-in-cee 2023-Hotel_Investment-report-in-CEE.pdf

OCCUPIERS PERSPECTIVE

THE CEE HOTEL OPERATOR BEAT



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OPERATOR INTEREST

Operator interest on a scale from 1 (no interest) to 5 (very high interest)

Between 4-5

Between 3-4

Between 2-3

Between 1-2

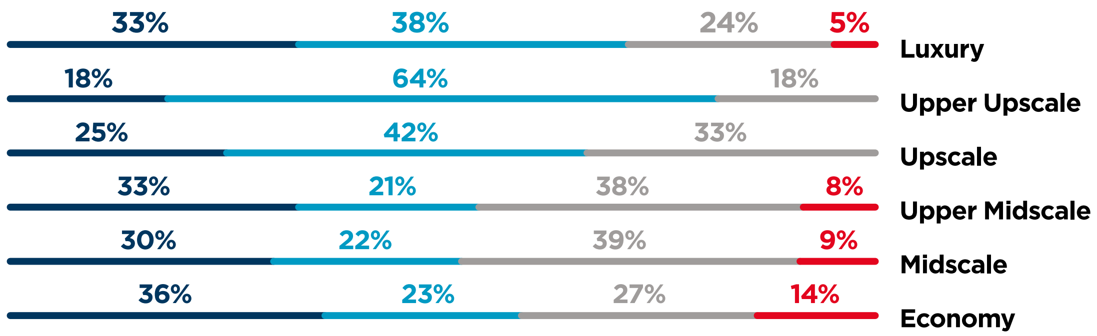
The circles represent the approximative locations of the markets. Results are rounded to one digit.

Source: based on the C&W survey of more than 25 international & regional hotel operators active in the CEE region

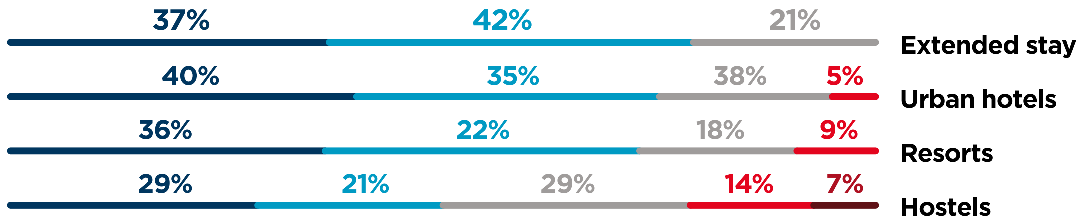
CUSHMAN & WAKEFIELD

PERFORMANCE OUTLOOK

Q: What is your outlook for the following hotel classes/types (RevPAR in the next 12 months)?



82% of surveyed operators are optimistic or very optimistic about the performance of Upper Upscale hotels



79% of surveyed operators are optimistic or very optimistic about the performance of extended stay hotels

Very optimistic | Optimistic | Moderate | Challenging | Very challenging

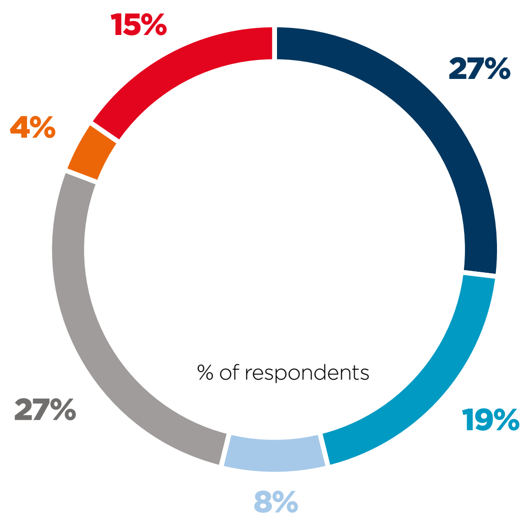
CUSHMAN & WAKEFIELD

IN 2023, BUDAPEST STOOD OUT AS THE TOP-PERFORMING MARKET AMONG THE CEE CAPITAL CITIES

HOTEL PIPELINE TRENDS

Q: What percentage of your pipeline projects are currently delayed or placed on hold?

% OF PIPELINE DELAYED

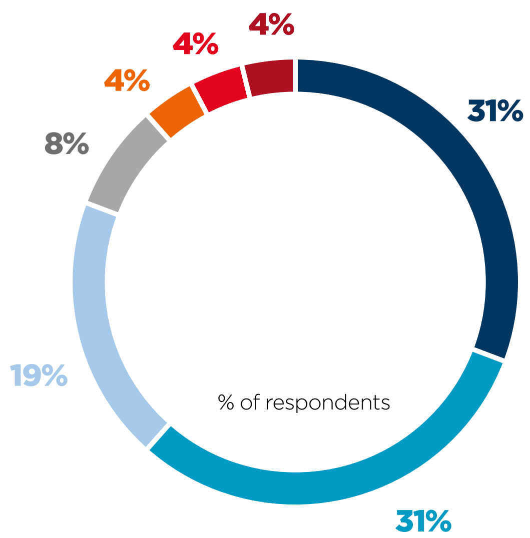


17%

of the pipeline projects are currently delayed (on average)[6]

% of respondents

% OF PIPELINE PLACED ON HOLD



11%

of the pipeline projects are currently on hold (on average)*

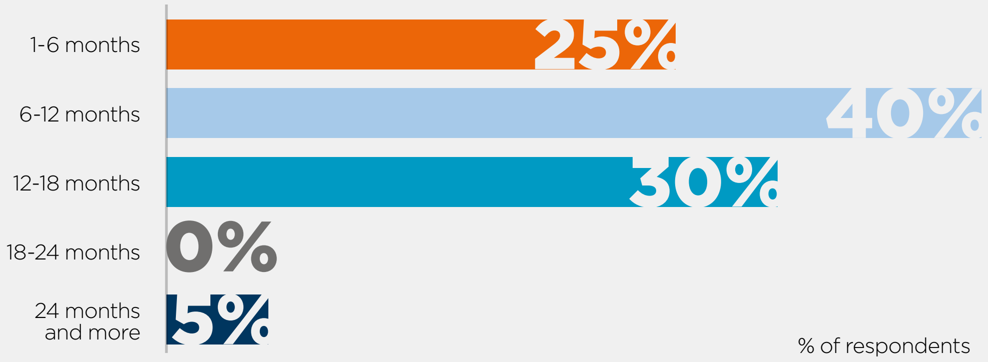
0% | 1-10% | 10-20% | 20-30% | 30-40% | 40-50% | >50%

Note:
ON HOLD – the project stopped
DELAYED – the project continues but the completion is expected later than initially planned

[6] Weighted average of the mid points

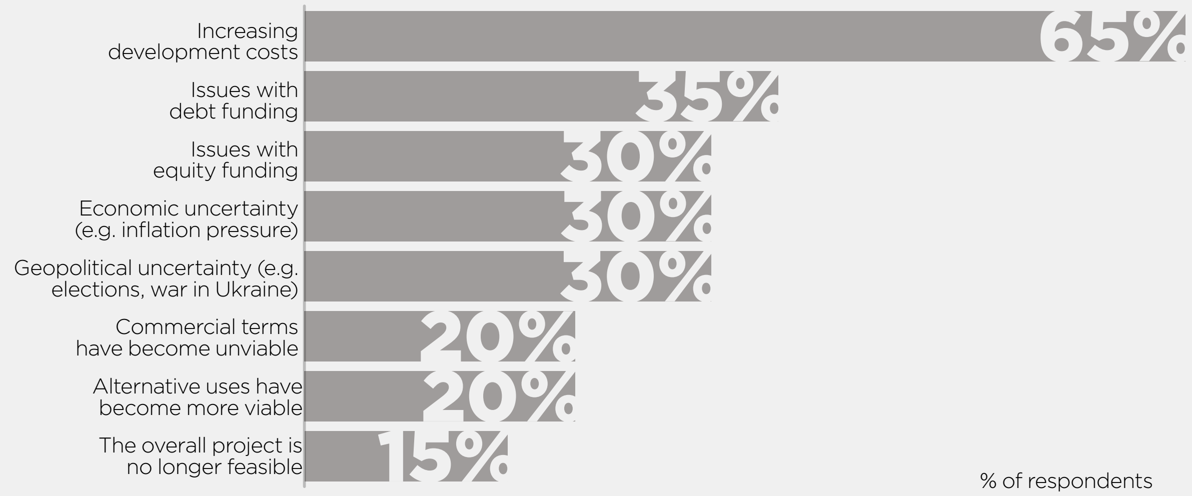
HOTEL PIPELINE TRENDS

Q: Of those projects which are delayed what is the average period of delay?



6-12 MONTHS is the most common delay of pipeline projects (according to 40% of respondents)

Q: For the delayed deals or those that did not proceed, what were the reasons? (multiple answers possible)



65% of the respondents are experiencing issues with delayed/ pending pipeline projects due to rising development costs

Note:
ON HOLD – the project stopped
DELAYED – the project continues but the completion is expected later than initially planned

ENVIRONMENTAL CONSIDERATIONS

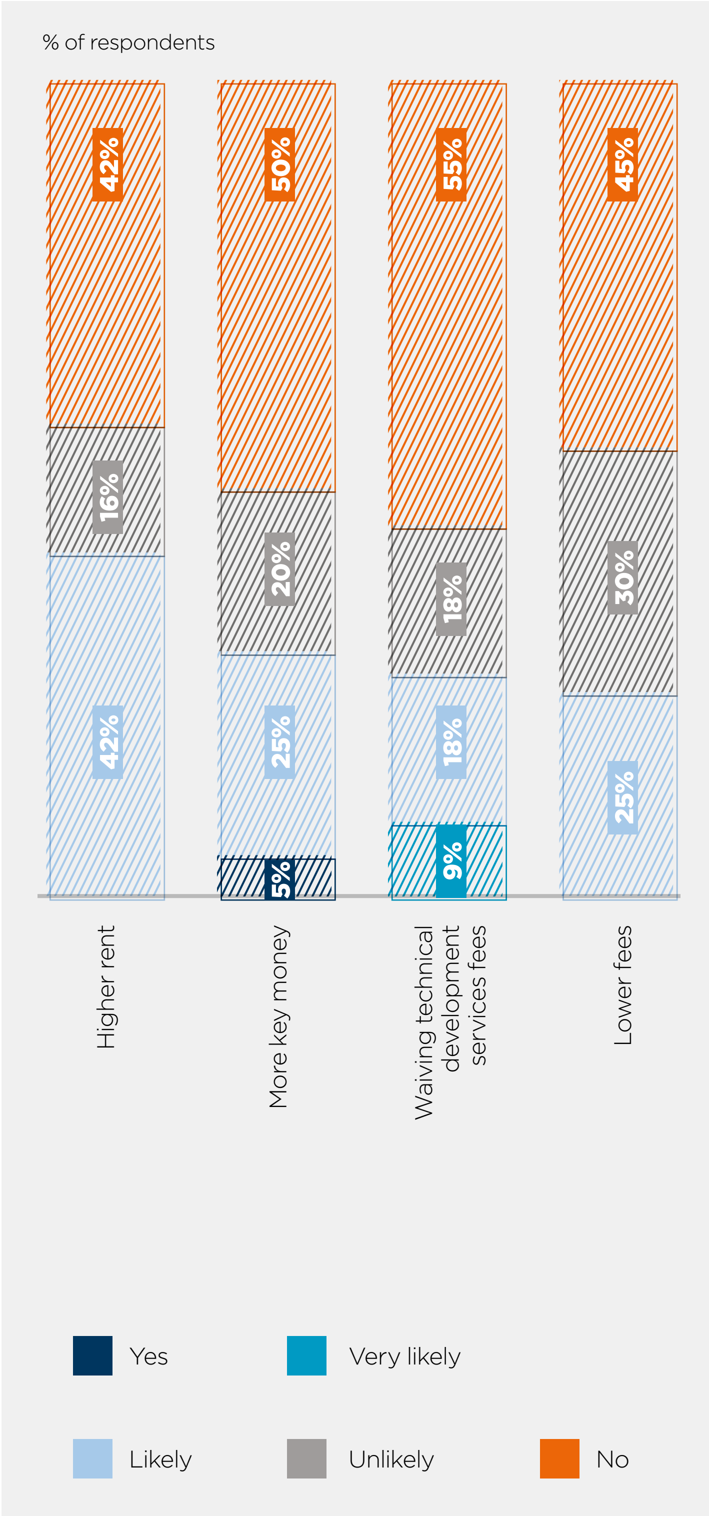
Q: Are you willing to provide more favourable commercial terms for hotel properties that have the highest environmental building rating/certification (for example: BREEAM-Outstanding, LEED-Platinum, EPC-A, etc.)?

42%

is the most common delay of pipeline projects (according to 40% of respondents)

30%

are willing to offer more key money for hotels with the highest ESG credentials



CONTRACT TERMS TRENDS

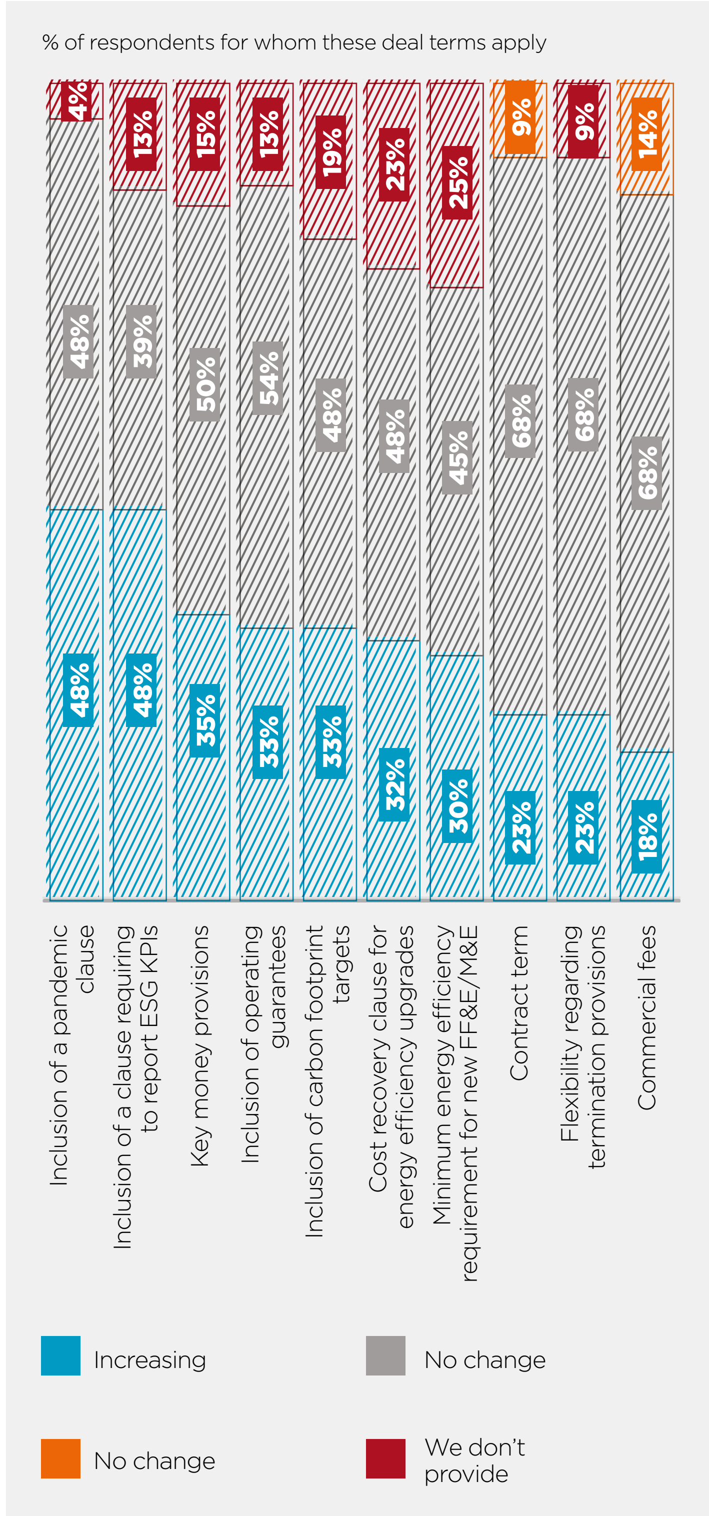
Q: Have you experienced any of the following trends in your key deal terms for new contracts and renewals in the last 12 months?

48%

of surveyed operators report an increasing trend of pandemic clause in their new contracts and renewals in the last 12 months

48%

of surveyed operators report increasing trend of clauses requiring to report ESG KPIs in their new contracts and renewals in the last 12 months



INVESTMENTS

THE SCENE IN CEE

In the upcoming section, we briefly touch upon investment insights. For a comprehensive analysis, we direct you to the fourth edition of the "Hotel Investment Scene in CEE", a joint report by Cushman & Wakefield and CMS. This report provides an extensive exploration of investment trends and opportunities in the hotel industry across the CEE region. We encourage you to refer to it for detailed insights and leave you with the introductory note of the report:

In recent years, the hotel sector in CEE has endured a very volatile period. Starting with the pandemic in 2020, followed by Russia's unprovoked invasion of Ukraine in 2022, and consequent economic challenges underpinned by the energy crisis and sharp increase in overall inflation. Not surprisingly, this had a detrimental impact on hotel performance and investment activity across the region, as described in this report. However, the hospitality industry is resilient and able to rebound quickly. The recovery is already underway and has surpassed most expectations. Hotels across the CEE region are showing robust performance, already exceeding pre-pandemic levels in many markets. This has attracted the attention of investors, and we are starting to see a rebound in transaction activity despite the high cost of financing and the ongoing economic and geopolitical challenges. Investors are attracted by the anti-inflationary nature of hotel real estate and the long-term growth potential in the tourism sector in CEE.

To protect and maximise the value of their assets, investors will need to address the challenges and opportunities associated with Environmental, Social and Governance (ESG) factors. In this report, we examine the benefits of implementing ESG best practices in hotels, such as increasing revenue, reducing costs, enhancing value and driving innovation. We also showcase some examples of hotels in the CEE region that have achieved high ESG standards and certifications. Furthermore, we outline the main ESG regulations and initiatives that affect the hospitality sector in the EU, such as the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy, the Non-Financial Reporting Directive (NFRD) and its successor the Corporate Sustainability Reporting Directive (CSRD), and the proposed Corporate Sustainability Due Diligence Directive (CSDDD). We also provide some practical guidance on incorporating ESG clauses into hotel operating agreements

To access full Hotel Investment Scene in CEE report, please click here.

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