

INVESTMENT

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OVERVIEW

In addition to the financial crisis and a deep recession, Hungary was afflicted economical and social turmoil in early 2009 which started stabilizing in the third and fourth quarter of the year. This combined with convincing credit freezes significantly reduced real estate investor interest which is reflected in the number of investment transaction.

Colliers has recorded 17 major transactions across all sectors for a total of €569M. Six of these involved income producing investment properties totaling some €262M compared to a volume of €411M in 2008. The remainder representing owner managed hotels, owner occupier or redevelopment use properties.

Two large investment transactions skewing the average transaction size upwards should be noted: The acquisition of the remaining 50% stake in Arena Plaza by UK based Lanebridge Investment Management and the sale and leaseback of two TESCO logistics facilities at a reported €63M representing a yield of above 8% , all in the second half of the year.

Another large transaction closed in 2010 is the sale by ING Development of a 50% stake in the newly built Allée Shopping Center to Allianz Real Estate Germany for a reported €100M representing a yield of circa 7.5%.

TRANSACTIONS

In 2009 a strong proportion of transactions were due to market consolidation and the reweighting of portfolios to reduce debt with only 5 transactions out of 17 considered “on market” transparent transactions.

With regards to the non income generating transactions tracked by Colliers International, five out of nine cases, the decision of either selling or buying real estate could be considered as being part of a greater overall corporate business or financial strategy of non sector related players.

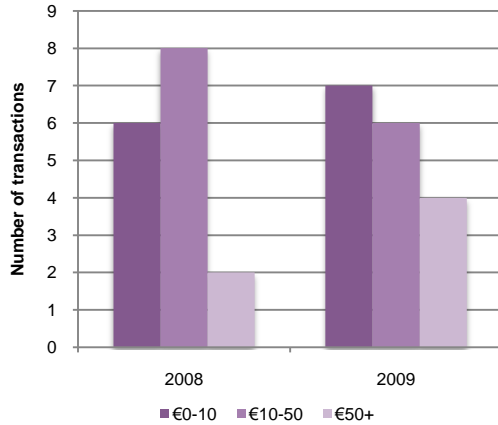
Out of the overall 17 transactions we can count 11 where the buyer or the vendor were probably motivated by one of the following three: market consolidation pressures, change in resource allocation strategy including equity or finally, by an overall corporate financial business strategy implementation.

New tax legislation taking effect January 1st 2010 will significantly reduce the tax benefits of SPV transactions in Hungary. The government lowered the stamp duty for the sale of assets and introduced a new tax on the transfer of company shares where 75% or more of the company’s value can be attributed to real estate.

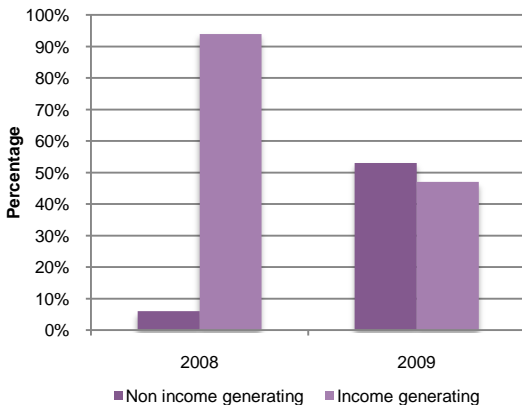
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Transaction sizes



Transactions by Income generation



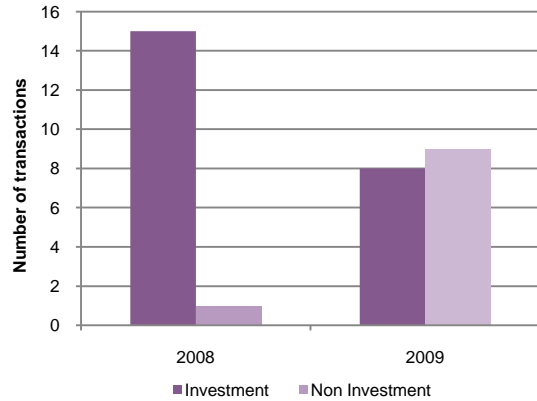
INVESTMENT

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Transaction types



Banks have been supportive of their current clients, preferring to restructure debt rather than foreclosing. As a result, we have seen very few instances of forced sales. Rather, banks are now cautiously open to finance a few select properties and clients.

The general consensus is that a gap of about 100bp still remain between Buyers and Sellers expectations, but a shift is clearly being felt since the third and fourth quarter where Sellers are increasingly willing to accept the new market conditions and meet the market.

Although 2010 may see some bank foreclosure, a flood of liquidation sales by the banks is unlikely with their general strategy indicating a „hold and manage” approach.

With the vacancy rate for modern office stock went from 16,5% in Q1 2009 to a forecasted 23,9% for Q4 and a pipeline of about 171,480 sqm of A class office to be delivered in 2010, Investor focus is back to fundamentals: core location, long term leases with sustainable current market rents, although the supply of such quality products is still expected to be scarce.

OUTLOOK 2010

While financing has been very difficult to obtain in 2009, an increase in activity was noted in the third and fourth quarter from „all cash” or local investors such as Hungarian real estate and pension funds, who are seeking higher yielding assets (9-10%) and favoring smaller lot sizes. The fourth quarter also signaled the return of some private equity and some open end German funds.

As economic indicators such as a lower than expected government deficit for 2009, growing trade surplus and strengthening of the forint translate into a lower perceived country risk and help re-establishing investor confidence, yields should stabilize in the first half of 2010 setting the prime yield for office at about 7.75% .

Market activity is forecasted to continue slowly increasing in 2010 as the market bottoms out and financing becomes more readily available.

2002-2011 Investment Transaction Volume (€M)

