

# INDUSTRIAL MARKET SENTIMENT SURVEY 2019

HUNGARY, BUDAPEST



# CONTENTS

ABOUT THIS REPORT	4
LOGISTICS	6
REGIONAL LOGISTICS & AUTOMOTIVE INDUSTRY IN HUNGARY	10
INDUSTRIAL SENTIMENT SURVEY RESULTS	14
E-COMMERCE	22
CITY LOGISTICS	26



# ABOUT THIS REPORT

*Cushman & Wakefield carried out an online industrial market sentiment survey and conducted interviews with top professionals of the industry to gain insights into the thought processes of our market shapers. There were 40 respondents from real estate developers, investors and advisors active in Hungary. We have conducted interviews with Ádám Székely, Managing Director at InfoGroup, Domonkos Joó Senior Asset Manager Hungary & Slovakia at LOGICOR and Rudolf Nemes, Country Manager of Hungary at CTP.*

Our responders were overwhelmingly privately-owned companies with a total stock of 100,000-500,000 square metres over the country. Approximately half of our respondents were only present in Budapest while the other half operate in the countryside as well. 2/3 are real estate developers and the rest comprise of professional and financial investors.

In general terms, most responses were positive about the industrial market in Hungary as a whole and predicted moderate growth in Hungary for the next three years.



## 40%

LOGISTICS WILL REMAIN THE DOMINANT PROFILE OF DEMAND IN BUDAPEST AND MANUFACTURING IN THE COUNTRYSIDE



## 30%

OF RESPONDENTS EXPECT THE BIGGEST MARKET CONSTRAINT WILL REMAIN THE AVAILABILITY OF LABOUR



## 2/3

OF RESPONDENTS ANTICIPATE DEMAND WILL BE GENERATED FROM NEW OCCUPIERS IN THE COUNTRYSIDE

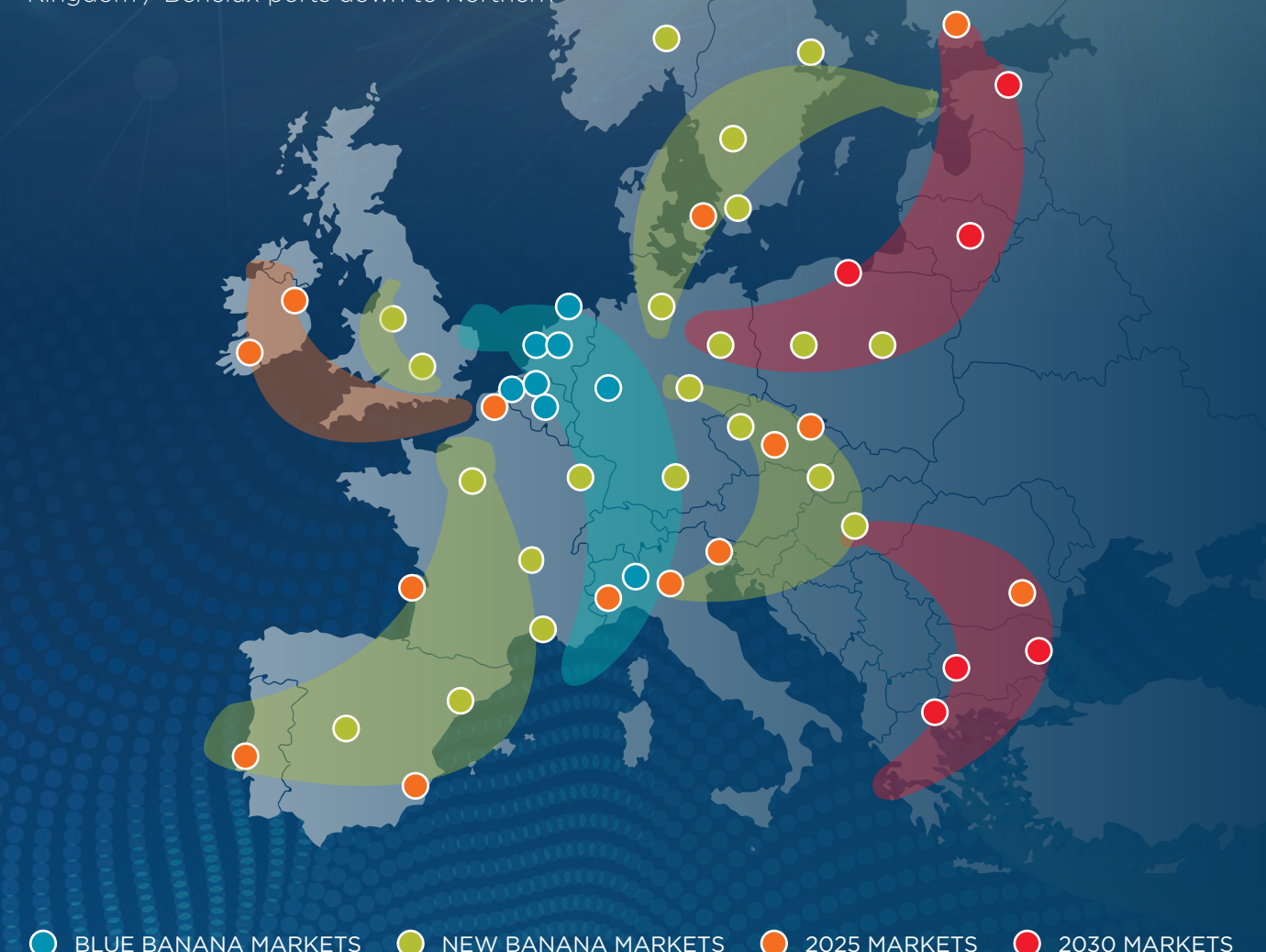
## BANANA MARKETS IN EUROPE

The “banana” map presents Europe’s chief logistics corridors, stretching from the United Kingdom to Greece in the South and to Finland in the North, crossing various capitals and major cities along these transport routes.

The first established “blue banana” corridor evolved as a trade route from the United Kingdom / Benelux ports down to Northern

Italy, which has by now expanded into several further routes due to major infrastructural developments across the continent. Increasing demand, workforce and cost constraints will likely lead to the birth of further bananas.

**Freight transport demand by 2050 is expected to increase threefold as compared to 2010 levels.**



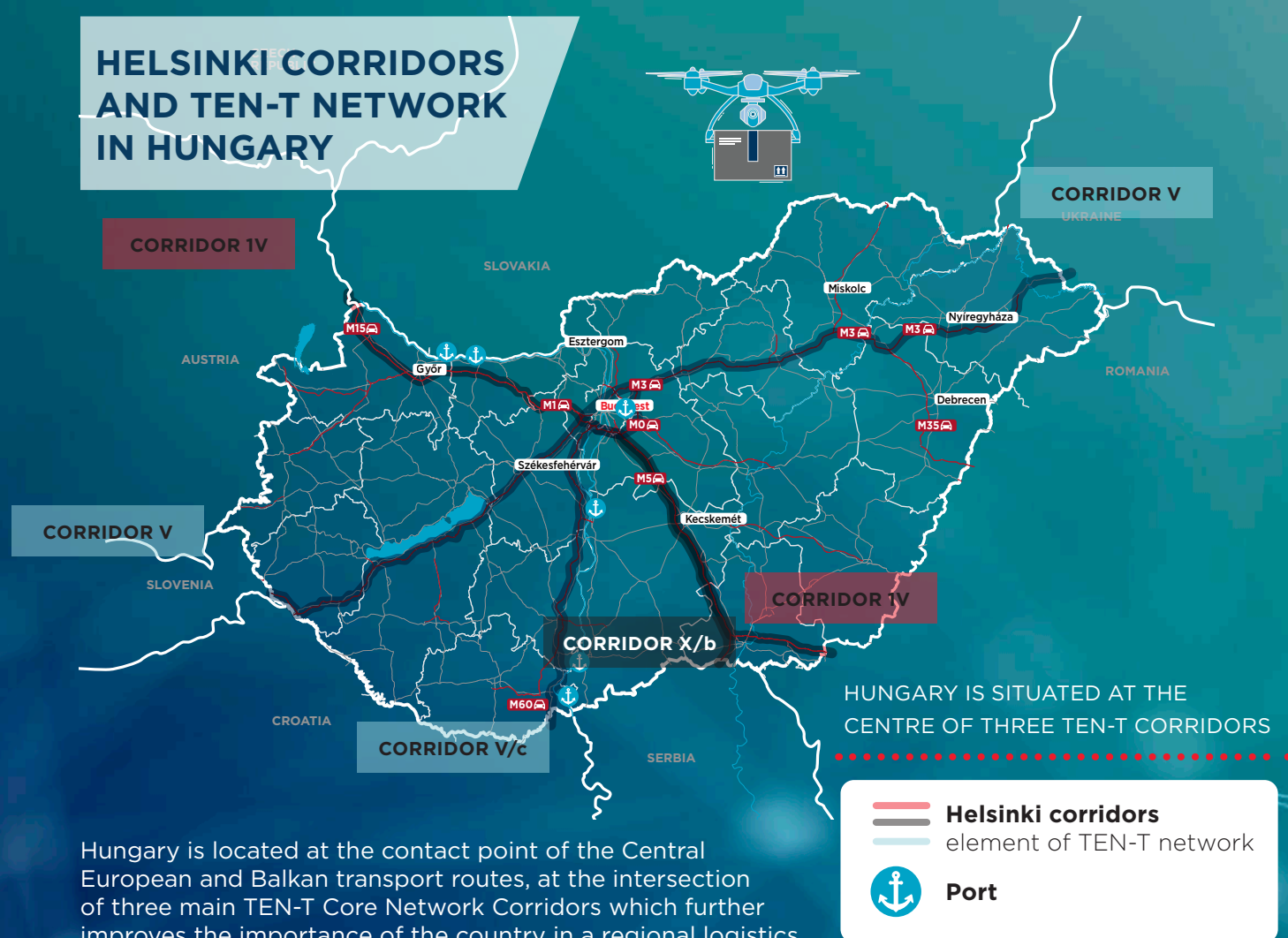


# LOGISTICS

## LOGISTICS ROUTES IN CENTRAL EUROPE

The Central European logistics route came to life due to the significant regional development of the TEN-T<sup>1</sup> motorway and rail network. The traffic of that corridor is likely to further increase as the Eurasian transport route is planned to link China to Greece. The CE Banana could eventually connect to the blue banana in Northern Italy, which will see potential for growth in the Hungarian logistics market.

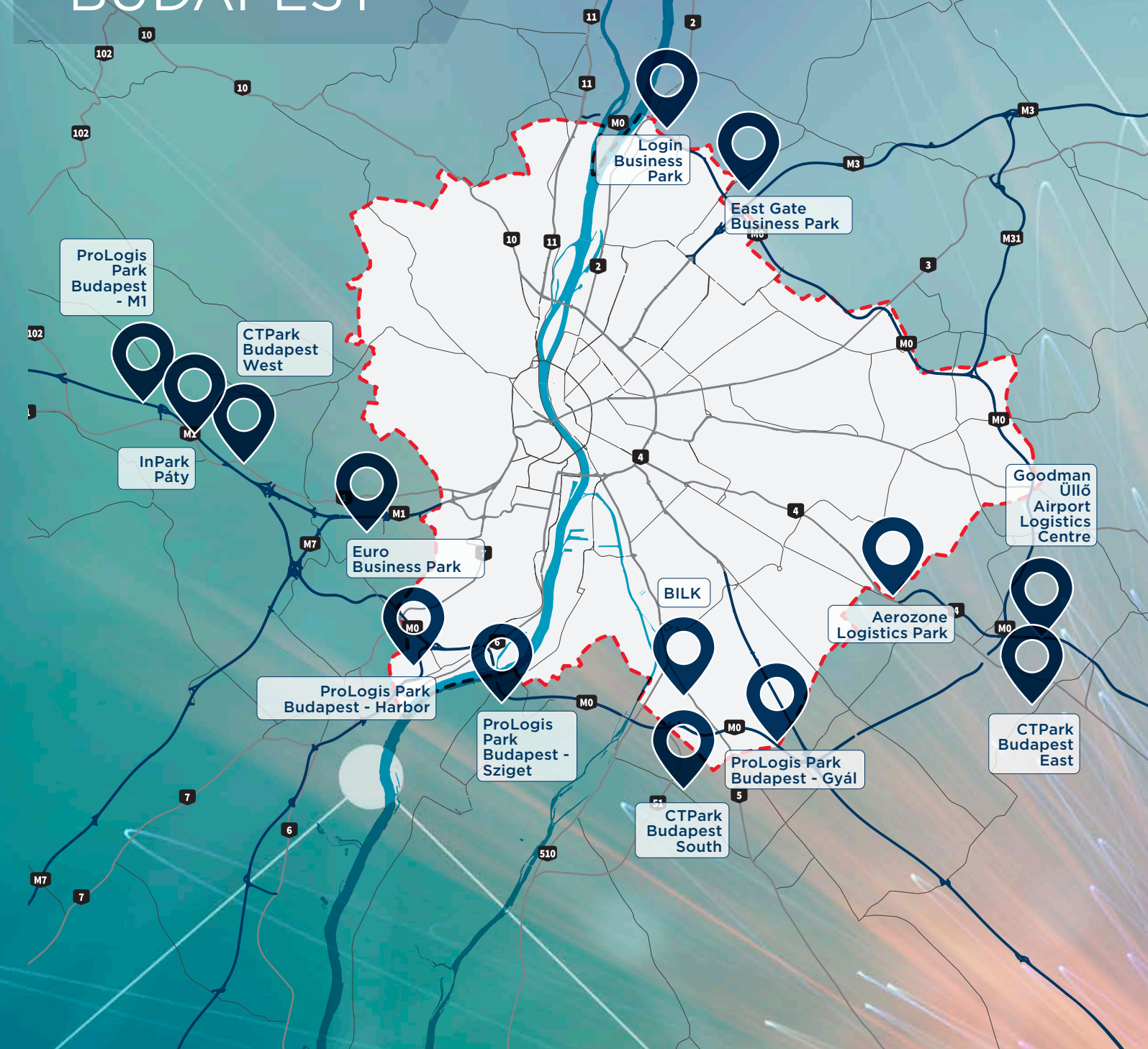
## HELSINKI CORRIDORS AND TEN-T NETWORK IN HUNGARY



Hungary is located at the contact point of the Central European and Balkan transport routes, at the intersection of three main TEN-T Core Network Corridors which further improves the importance of the country in a regional logistics context. Within Hungary, the sweet spot for logistics is the triangle enclosed by the M0, M1 and M5 motorways.

1. The Trans-European Transport Network (TEN-T) policy addresses the implementation and development of a Europe-wide network of railway lines, roads, inland waterways, maritime shipping routes, ports, airports and railroad terminals. The backbone of the Core Network to be completed by 2030 is represented by nine Core Network Corridors. The current TEN-T policy is based on Regulation (EU) No 1315/2013

## BIG-BOX LOGISTICS SCHEMES BUDAPEST



The non owner-occupied industrial logistics market consists of high standard big box units. Most of Hungary's modern logistics space is centred around Budapest, in particular along the M1 and M0 ring road, however retail warehousing outpriced this location pushing the national logistics borders further East. Regional cities have remained underdeveloped to date.



# WHAT IS THE IMPORTANCE OF THE LOGISTICS SECTOR IN YOUR PORTFOLIO?

## HOW DO YOU SEE IT WILL CHANGE OVER THE NEXT 3 YEARS?

“

**IN BUDAPEST BIG-BOX  
WAREHOUSING THE  
LOGISTICS SECTOR  
HAS REMAINED  
DOMINANT ”**

DOMONKOS JOÓ

### Domonkos Joó

Logicor / Senior Asset Manager Hungary &amp; Slovakia

We see that in Budapest big-box warehousing the logistics sector has remained dominant. We foresee this to be unchanged in the short to medium term.

There is little speculative development on the market with the prime constraint remaining the high cost of construction, albeit affecting all market players almost equally. Looking at this from the occupiers' side, highly increased rental fees are still generally small in tenants' total business budgets or even negligible in high added-value businesses. Therefore, we expect occupiers demand to remain strong in the logistics sector.

“

**MORE THAN 70% OF  
THE NEW SCHEMES  
DEVELOPED BY CTP  
WILL BE OCCUPIED BY  
EXISTING TENANTS ”**

RUDOLF NEMES

### Rudolf Nemes

CTP / Country Manager

We are one of the very few who actively develop under the current market circumstances. More than 70% of the new schemes developed by CTP will be occupied by existing tenants looking for new or expansion space. So, I see a limited volume of new market entrants. Our business model is different from other large portfolio investors: we have an in-house construction team, and therefore we were somewhat more resilient to the drastic increase of construction costs.

### Ádám Székely

InfoGroup / Managing Director

Our experience is that the profitability of logistics companies is impacted more by the cost of real estate as compared to other businesses, such as SSC /BPO tenants.

Hungary is situated out of the traditional high density 'blue banana' region, therefore demand is primarily driven by traditional production and local consumer logistics and not E-commerce.

I see though that the FMCG sector is expanding in terms of the number of distribution centres along major motorway junctions and larger cities. We have secured such tenants in our big box schemes.

The development market is facing some structural constraints. In fact, the current rental rates are too high in a regional context and therefore I consider the current market to consolidate slightly. If occupiers reach the limit of their payment abilities, the competitiveness of the whole country will sooner or later be affected. We need look at this from at least a regional perspective.

Another constraint I see is that during the process of infrastructure development, the public utility suppliers are notably less effective than their regional counterparts.

Furthermore, financing parties remain strict in defining financing limits even in the current business cycle. We have at CTP a development pipeline of 150,000 square metres for 2020 and most of it will be realized in the larger Budapest area. As for the future, the whole CTP portfolio is planned to be BREEAM certified.

“

**DEMAND IS  
PRIMARILY DRIVEN  
BY TRADITIONAL  
PRODUCTION AND  
LOCAL CONSUMER  
LOGISTICS ”**

ÁDÁM SZÉKELY

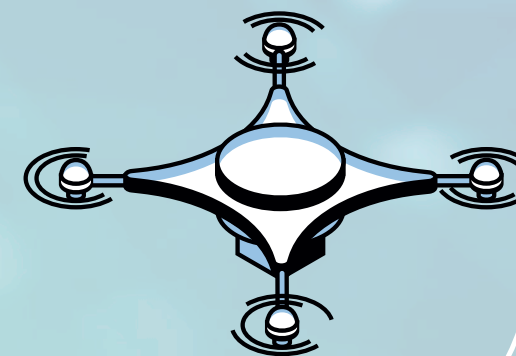


# REGIONAL LOGISTICS AND AUTOMOTIVE INDUSTRY IN HUNGARY

Regional logistics in Hungary is essentially driven by the German automotive industry. Export production is the key driver of economic growth in Hungary and **auto exports dominantly account for circa 35% of Hungarian industrial production<sup>2</sup> generating steady demand for industrial space across the country.**

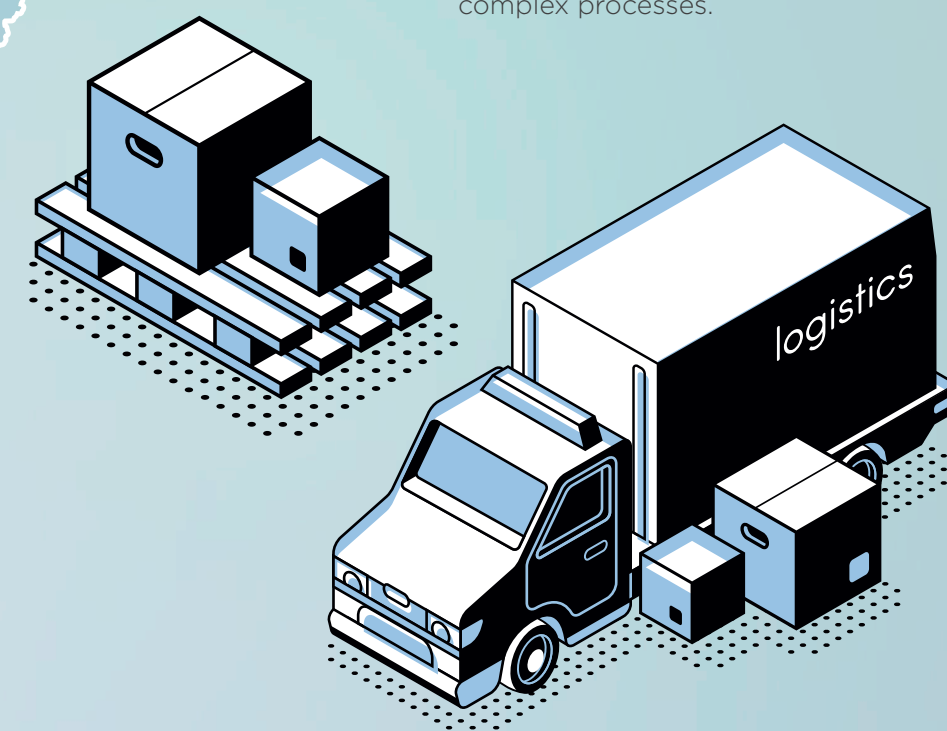
Industrial hotspots of the car production and component supply sector include Győr (Audi), Kecskemét (Daimler Mercedes) and Debrecen (new BMW subsidiary). The automotive industry is further represented in Esztergom (Suzuki) and Szentgotthárd (GM - Opel).

The existing locations are a magnet for car production related businesses and is likely to sustain demand for space over the coming years. **Whilst car manufacturing is pushed from conventional towards electric car production globally, the new trend has already created opportunities for other suppliers in Hungary** (Samsung SDI, SK Innovation, Inzi Controls).



While these brands mainly operate out of owner-occupied schemes, **their presence is the catalyst of build-to-suit development in their surroundings.** These warehouses are usually occupied by direct suppliers of the main plant.

C&W research shows that manufacturers have prioritised the proximity to labour pools in their location decisions. **Based on the quality of work force, Hungary has moved up in the global value chain** and whilst technology and automation are significantly reducing reliance on low skilled labour, innovation is creating the need to hire highly skilled talent who can manage complex processes.





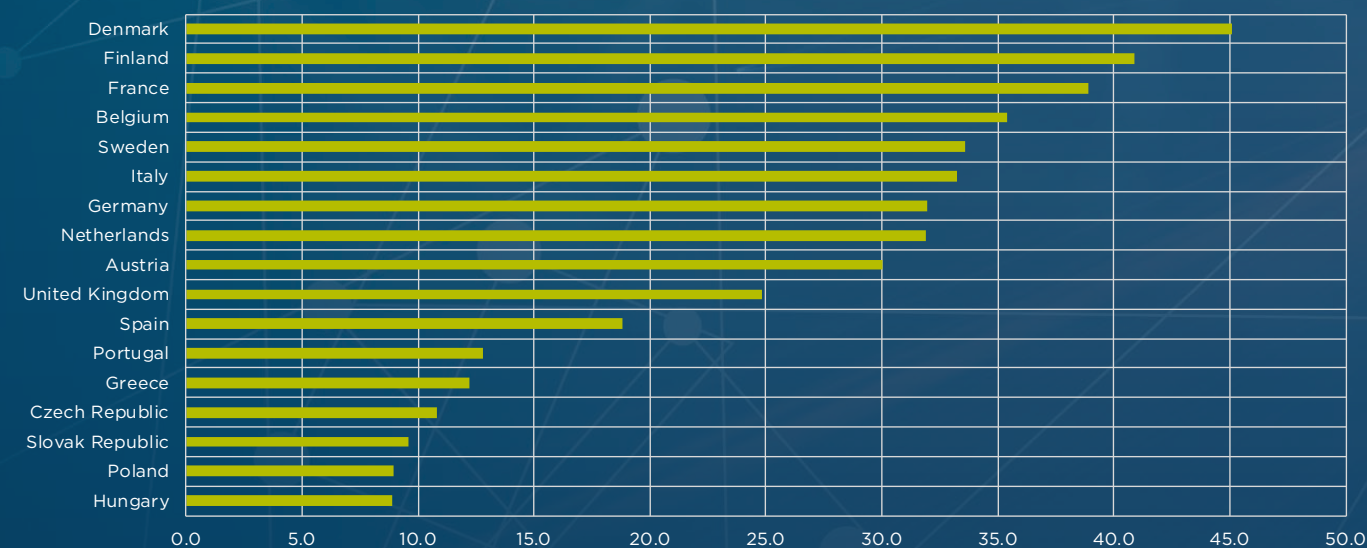
# REGIONAL LOGISTICS AND AUTOMOTIVE INDUSTRY IN HUNGARY

## HUNGARY'S COMPETITIVE ADVANTAGES

Still, the unit labour cost discount versus Western Europe remains as Hungary's main competitive advantage, which is apparent from the chart below. Despite accelerating wage growth in the region, Hungary remained the cheapest of the V4 countries. The local labour pool has adapted to this as 22.4% of workers are employed in manufacturing<sup>3</sup>. Tax rates are also competitive

within the region and are likely to remain so. Hungary has become an easier place to do business and has reduced corporate tax rates to the lowest level in the CEE region. According to the Cushman & Wakefield Manufacturing Risk Index 2019 report<sup>4</sup>, which assessed the most suitable locations for global manufacturing, Hungary was ranked Number 9 among 48 countries globally and ahead of Romania, Bulgaria and Slovakia from the CEE region.

## WAGES, HOURLY, US\$, 2018 / US\$ PER HOUR



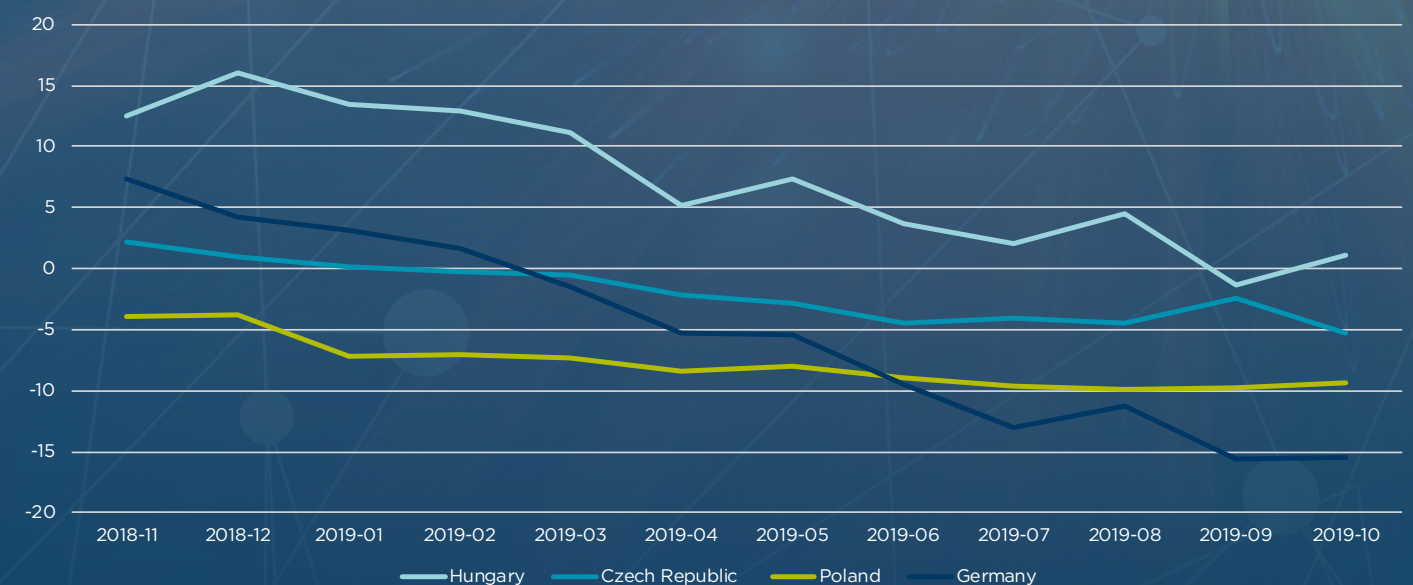
Source: Cushman & Wakefield Oxford Economics

## INDUSTRIAL TRENDS

The Outlook of the European automotive industry seems rather gloomy these days. A recent KPMG survey reports that 2/3 of executives believe that less than 5% of global car production will originate in Western Europe by 2030. This sentiment is similarly strong amongst EU executive responses as it is on a global scale<sup>5</sup>. Earlier this year, Daimler

announced a postponement of investment in Kecskemét, while Audi has decided to scale back its production in Győr. **The Eurostat industrial confidence index however, shows optimism in Hungary compared to other CE countries<sup>6</sup>. Such positive sentiment was measured by our sentiment survey.**

## INDUSTRIAL CONFIDENCE INDICATORS BY EUROSTAT



Source: Eurostat industrial confidence indication

<sup>3</sup> Hungarian Central Statistical Office data

<sup>4</sup> <http://www.cushmanwakefield.com/en/research-and-insight/2019/manufacturing-risk-index-2019>. This rank is according to the Baseline scenario, which gives equal importance to a country's operating conditions and cost competitiveness.

<sup>5</sup> <https://automotive-institute.kpmg.de/GAES2019/megatrends-beyond-the-obvious/regional-shifts>

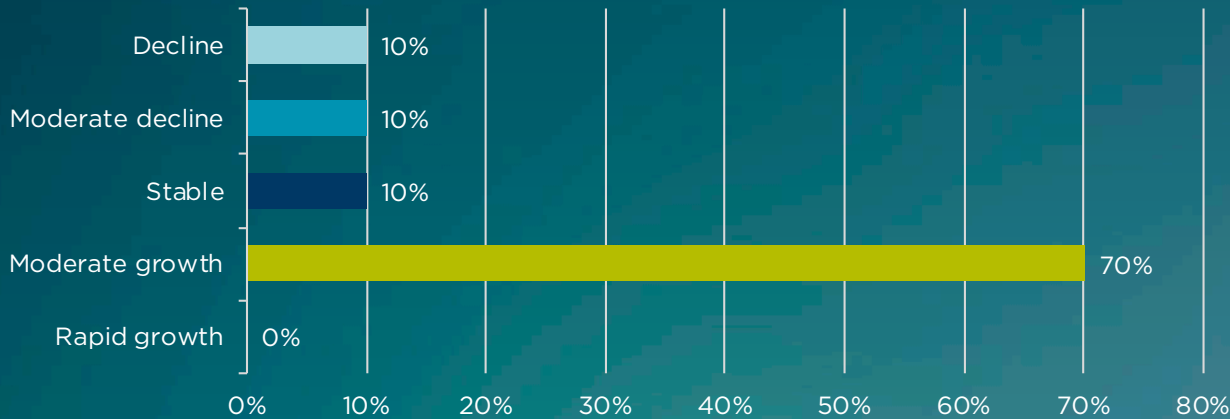
<sup>6</sup> Business surveys provide a rapid means of compiling simple statistics with the results available before those of traditional statistical methods and provide also information on areas not covered by quantitative statistics. Source: Eurostat



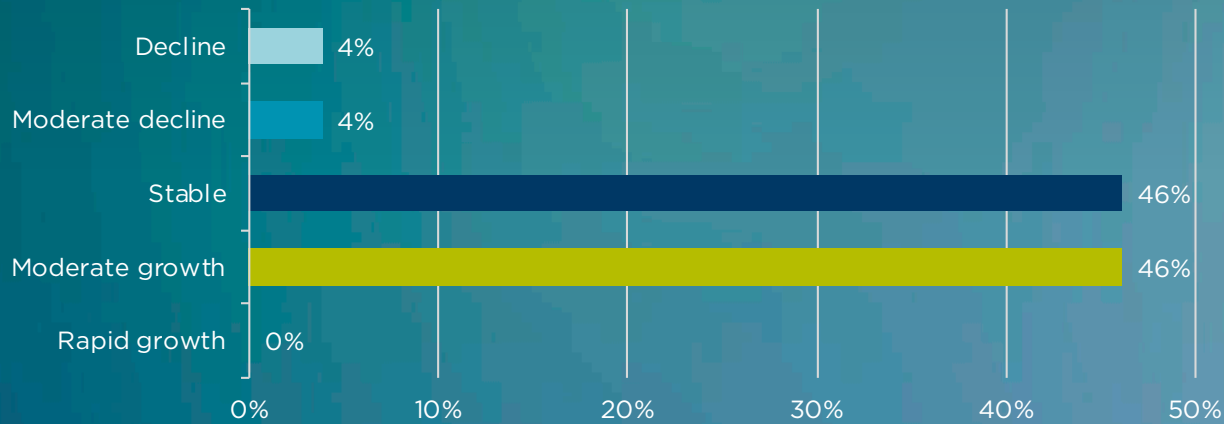
# INDUSTRIAL SENTIMENT SURVEY RESULTS

*As there are record low vacancy rates in the Hungarian industrial market, the current industrial real estate capacity is fully utilised. Still, our sentiment survey showed the market players expect moderate growth in Hungary for the next 3 years. They were more optimistic with the Budapest market than the countryside.*

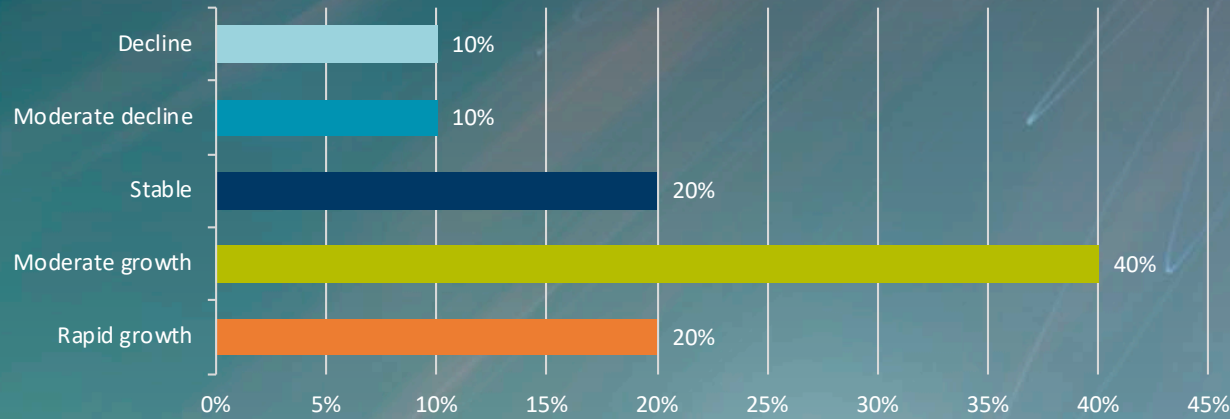
## MARKET PERFORMANCE IN THE BUDAPEST AREA BY 2022



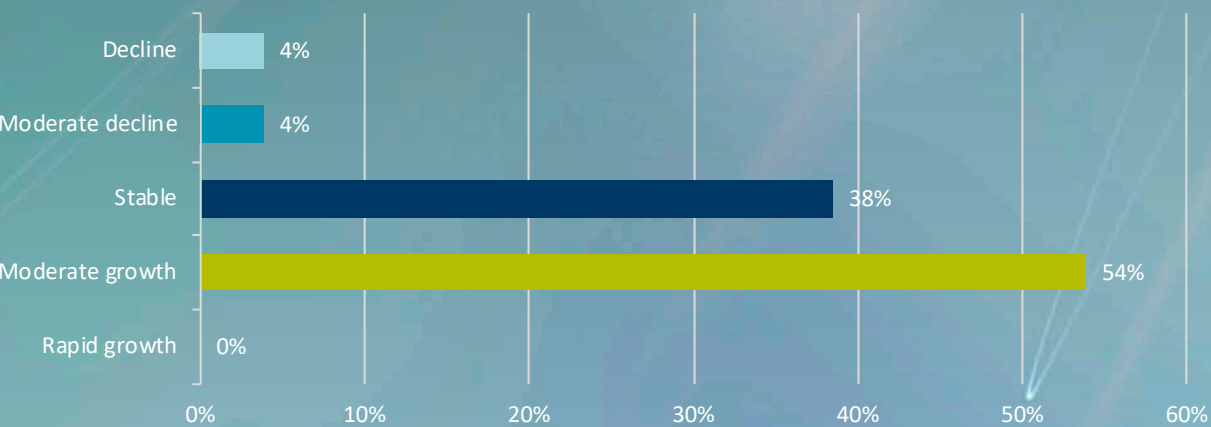
## MARKET PERFORMANCE IN THE COUNTRYSIDE BY 2022



## OCCUPIER DEMAND IN THE BUDAPEST AREA BY 2022



## OCCUPIER DEMAND IN THE COUNTRYSIDE BY 2022



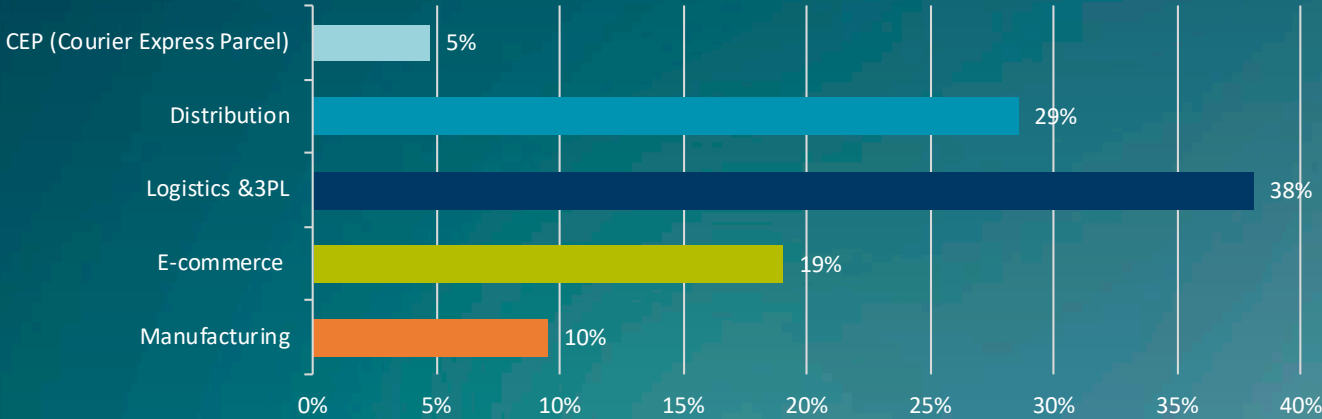
Source: Cushman & Wakefield INDUSTRIAL MARKET SENTIMENT SURVEY 2019 Hungary



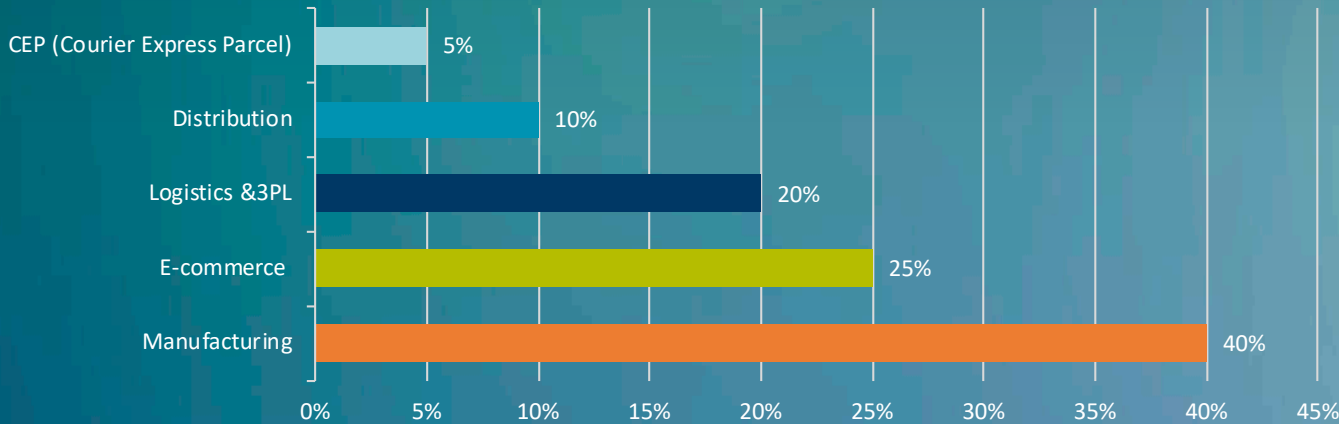
# INDUSTRIAL SENTIMENT SURVEY RESULTS

*Our responders suggest that the key drivers of demand will be logistics and distribution in the greater Budapest area, and manufacturing will remain dominant in the countryside. They expect that demand will be evenly generated by new and existing occupiers in the capital city but 2/3 of them anticipate demand will primarily be generated by new occupiers in the countryside in the coming 3 years.*

## DOMINANT PROFILE OF DEMAND IN THE BUDAPEST AREA BY 2022

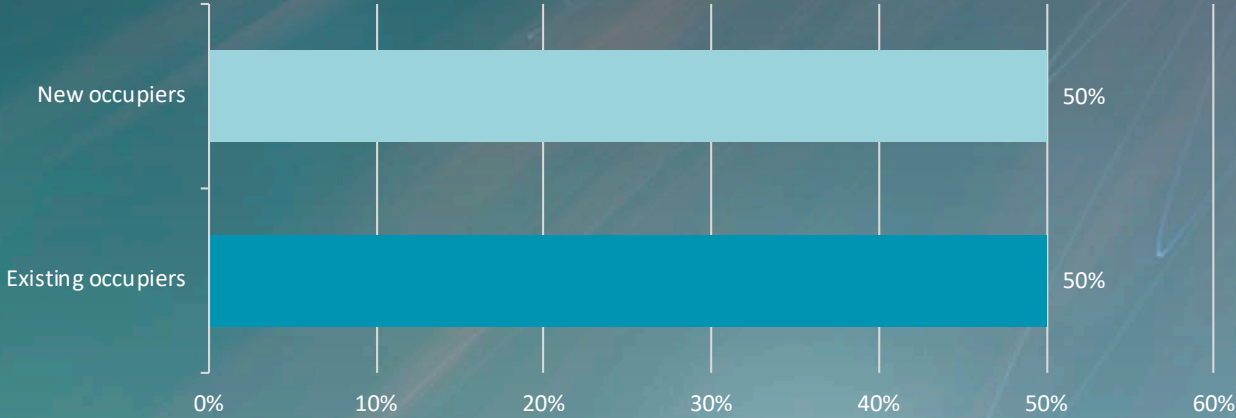


## DOMINANT PROFILE OF DEMAND IN THE COUNTRYSIDE BY 2022

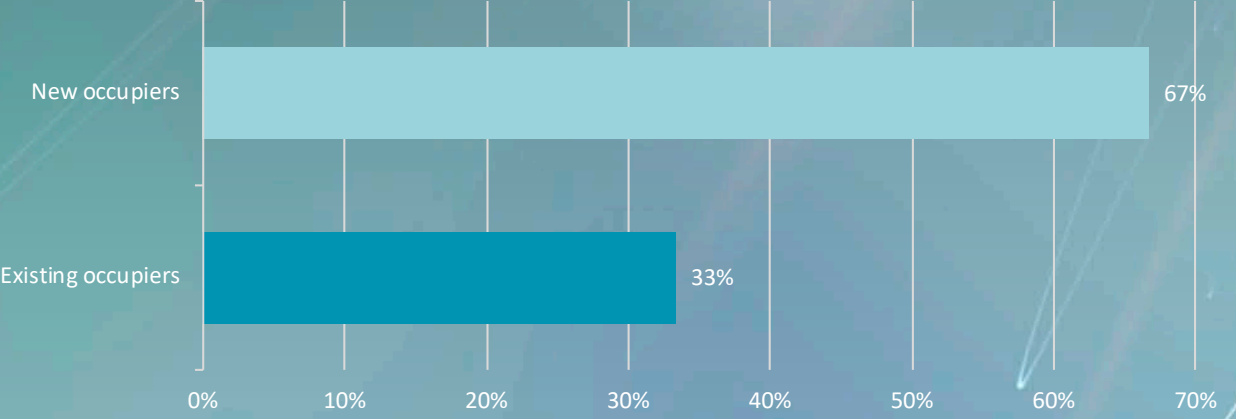


Source: Cushman & Wakefield INDUSTRIAL MARKET SENTIMENT SURVEY 2019 Hungary

## OCCUPIER DEMAND IN THE BUDAPEST AREA BY 2022



## OCCUPIER DEMAND IN THE COUNTRYSIDE BY 2022



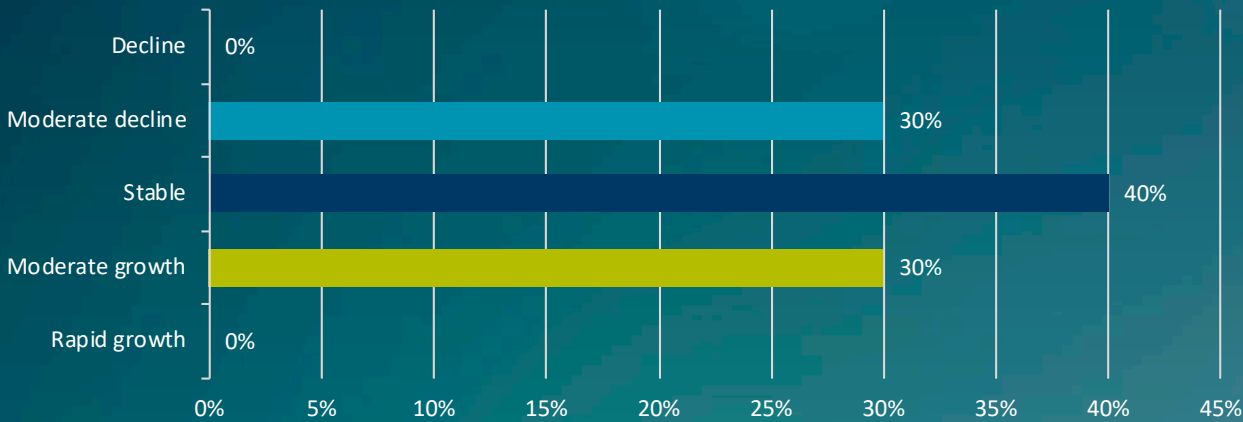
Source: Cushman & Wakefield INDUSTRIAL MARKET SENTIMENT SURVEY 2019 Hungary



# INDUSTRIAL SENTIMENT SURVEY RESULTS

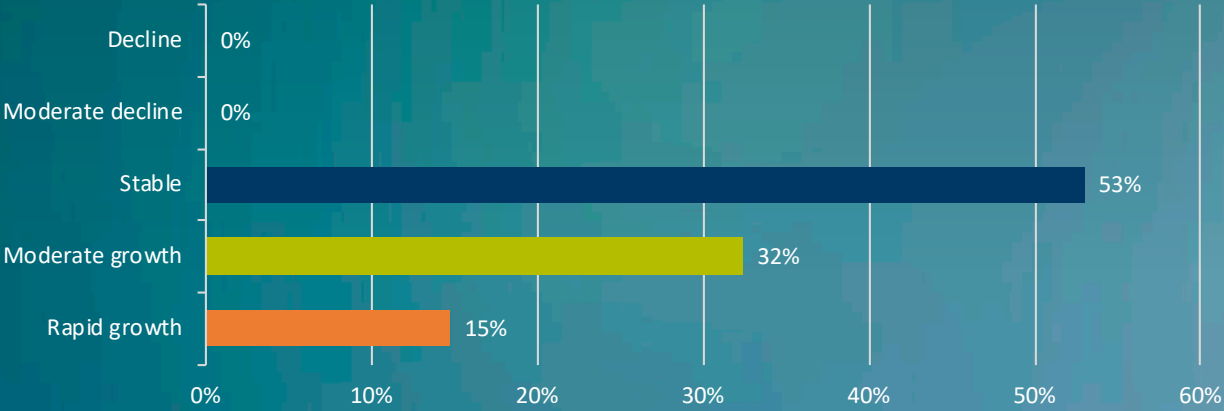
While vacancy is at historic lows and new speculative supply is limited, 30% of our respondents expect rents to decline in Budapest. In contrary, almost 50% of them expect rents to grow in the countryside by 2022.

## RENTAL RATES TO PERFORM IN THE BUDAPEST AREA BY 2022



Source: Cushman & Wakefield INDUSTRIAL MARKET SENTIMENT SURVEY 2019 Hungary

## RENTAL RATES TO PERFORM IN THE COUNTRYSIDE BY 2022



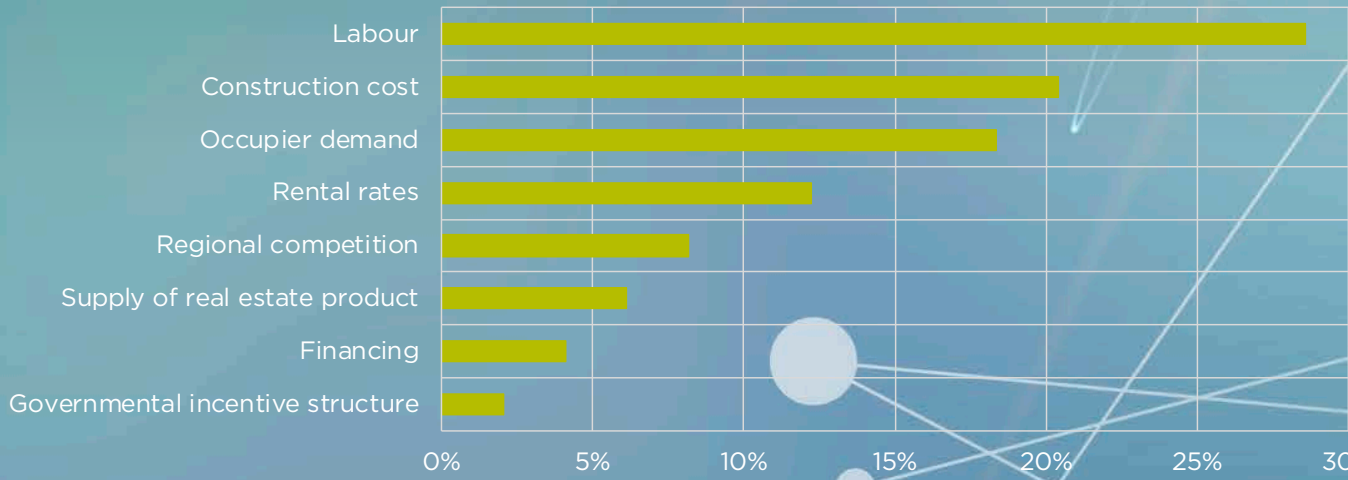
Source: Cushman & Wakefield INDUSTRIAL MARKET SENTIMENT SURVEY 2019 Hungary

BTS and speculative development are the most popular options for now and for the coming years. As expected, land purchase plans show a moderate decrease in the current economic cycle. **Despite favourable market outlooks and record low vacancy, the popularity of BTS is expected to increase for future plans. Speculative development remains popular at c. 1/5 of responses. Market constraints remain the shortage of labour and the high cost of construction.**

## INVESTMENT STRATEGIES OF THE RESPONDENTS



## MARKET CONSTRAINTS BY 2022



Source: Cushman & Wakefield INDUSTRIAL MARKET SENTIMENT SURVEY 2019 Hungary



# WHAT IS THE IMPORTANCE OF REGIONAL DEVELOPMENTS TO YOUR PORTFOLIO?

## HOW DO YOU SEE IT WILL CHANGE OVER THE NEXT 3 YEARS?

“

**DUE TO THE SLOWDOWN OF THE GERMAN AUTOMOTIVE INDUSTRY, OUR EXPOSURE TO THIS SEGMENT HAS BEEN MAXIMIZED ”**

RUDOLF NEMES

### Rudolf Nemes

CTP / Country Manager

The countryside is still an interesting location for CTP. We plan to commence development in prime countryside locations by the busy motorway and large city junctions. We have development plots in Győr, Komárom, Kecskemét and Tatabánya with a total potential for more than 125,000 sq m. Despite of the above, our primary focus remains the Budapest proximity market.

I see demand for countryside locations will be dominated by manufacturing and distribution sectors. Due to the slowdown of the German automotive industry, our exposure to this segment has been maximized and we focus our business on logistics and distribution properties as key segments. We aim to keep BTS developments as close as possible to standard specification in order to have flexibility upon lease expiry.

“

**I SEE STEADY DEMAND FOR THESE SPECIFIC LOCATIONS, BEING THE OBVIOUS MANUFACTURING AND AUTOMOTIVE HOTSPOTS OF THE COUNTRY ”**

ÁDÁM SZÉKELY

### Ádám Székely

InfoGroup / Managing Director

We are focused on the countryside right now, whilst we plan to enter the Budapest market in the future subject to good opportunities. We have projects within the Miskolc – Debrecen – Nyíregyháza triangle at the north-eastern part of the country, and currently our other focus area is Kecskemét, where our development plots are situated right next to the Daimler plant. From experience there is generally low vacancy in the countryside institutional stock, primarily due to the limited existing supply. We have actually experienced short void periods when tenants vacated at lease expiry.

The strength of Hungary is that it has a competitive advantage in wages being significantly lower than in the EU and therefore draws large FDI flows. But once international giants have set up their operation, they have established training programs with local universities. Examples include Audi in Győr, Budapest and Miskolc, and Mercedes in Kecskemét or the international school in Debrecen. This has allowed us to develop special

competencies and move up in the global value chains to mid-range manufacturing from the low-range in the early 1990's. And this is a very important thing as whatever happens to the core businesses of these international giants, these competencies will stay with us and will be suitable and available for other international businesses at competitive prices.

As a result, I see steady demand for these specific locations, being the obvious manufacturing and automotive hotspots of the country, even in a changing business environment and changing focus areas. However, currently the driver of the demand is production/manufacturing logistics as supply chains in Kecskemét, Győr or Debrecen want to be as close as possible to their clients.

I like the idea that HIPA is a forward-thinker in terms that whilst Hungary has a strong exposure to the slowing German automotive industry, we have secured a strategic position in battery production, as three out of the five leading Asian battery manufacturers including Samsung SDI, SK Innovation and GS Yuasa chose Hungary for their European manufacturing centre.

### Domonkos Joó

Logicor / Senior Asset Manager Hungary & Slovakia

Our prime target remains the greater Budapest area. No plans to invest more in the countryside whilst we have a fully leased property in Győr, which we plan to hold.



# E-COMMERCE

## KEY DEMAND TRENDS ON THE INDUSTRIAL MARKET IN CEE

While the e-Commerce buzz is about autonomous vehicles disrupting the supply chain and reverse logistics enabling fuss-free returns, the CEE region is not quite there yet. Globally, EUR 621 billion<sup>7</sup> worth of e-Commerce sales were reported in 2019. The Central and Eastern European region accounted for c. 10% of the total volume.

The Czech Republic dominated 2018 in terms of the percentage of companies receiving online orders (24%). Hungary, Poland and Slovakia ranking second in a tie 400 bps down from the EU28 average at 17%.

	INTERNET PENETRATION	%-OF E -SHOPPERS	TURNOVER GROWTH	VOLUME (€M)	POPULATION MN PEOPLE
HUNGARY	80%	53%	17%	1.65 (2017)	9.60
CZECH REPUBLIC	88%	68%	16%	5.25 (2018)	10.60
POLAND	77%	61%	25%	9.30 (2018)	38.00
ROMANIA	74%	27%	30%	3.60 (2018)	19.00

Source: Eurostat, Percentage of enterprises selling online (at least 1% of turnover)

Considering that internet penetration is the second highest in Hungary, the ratio of e-shoppers at c. 50% seems quite low. In comparison, Poland, while less digitalized in terms of internet supply, can pride itself upon a strong 61% e-shopping ratio.

**The CEE e-Commerce outlook relies on distribution channels and potential market size.** Poland with its 38 million inhabitants and established transport network right next to Germany is an obvious target for expanding Western e-Businesses. Back in 2000, Poland had only a few hundred thousand square metres of modern warehouse space, while today it has more than 16 million square metres with over 2 million in pipeline.

In 2018, the Hungarian Statistics Office reported e-Commerce to account for 5.8% of total retail sales. **Hungary’s low-key increase of e-Commerce might be attributed to several factors such as territorial inequalities.** While comparable in population to the Czech Republic, almost 1/5 of citizens live in the capital, thus regional markets are severely underdeveloped.

## GIGA RETAILERS

Amazon, a top online marketplace in the world has a nearly 50% market share of e-Commerce in the US and 35% of apparel sales within that. In contrast, they account for 22% of West European online sales, but for only 8% of online apparel sales<sup>8</sup>. The CEE region has had its first Amazon market entry in 2013. **The e-Commerce giant is now present in Poland with 9 warehouses by 2020, and 2 both in the Czech Republic and Slovakia.**

Amazon differentiates 6 types of warehouses<sup>9</sup>. This structure is primarily representative of their fully developed US structure, nonetheless, it is a useful indicator of the requirements of a successful e-Commerce network. Naturally, as **Hungary is smaller, tenant demand is expected to be less.** Their 25,000 square metre Prague fulfilment centres is a good estimation point as the Czech capital is similar in size to Hungary’s while its population is one third smaller.

Hungary, and Budapest is not served with e-Fulfilment centres, which are dedicated XL warehouses usually between 30,000-100,000 square metres that houses all eCommerce activities relating to fulfilling orders: sorting, picking, product storage, and may also include last mile and return activities. While these warehouses require a large workforce, they are increasingly being built with technology in mind. These assets are usually located at key multi-modal transport junctions in order to serve a large, in many cases pan-European catchment area.

New technologies are targeting logistics services which, together with the pace of innovation, will bring uncertainty. PwC’s Annual Global CEO Survey<sup>10</sup> found that Transportation & Logistics CEOs confidence in their own organization’s revenue growth over the next 12 months is at a five-year low.

**While the giga retailer is not expected to enter the Hungarian market anytime soon, the requirements for the online shopping trend which sooner or later will be experienced by Budapest as well, are expected to be in line with the Czech pattern.**

## E-RETAILERS IN HUNGARY

A recent GKI Digital<sup>11</sup> report suggests that more than 4500 local businesses (mostly SMEs) use local or international online marketplaces in Hungary. E-Commerce sales was reported at EUR 1,6 billion worth in 2018, of which some 2-3% originated from online marketplaces. The largest platform is eMAG Marketplace, which is a CEE solution with current locations tha include Bucharest, Sofia, Warsaw and Budapest and offers some 1.5 million types of product. This might be considered as exiguous in comparison to Amazon’s size of 120 million kinds of product, however, this is a reflection of the actual size of the E-Commerce market in the region and also in Hungary. Nonetheless, **the exponential growth of e-Commerce turnover at around 17% in Hungary suggests that the market is expanding.**

7. <https://ecommercenews.eu/ecommerce-in-europe/>  
8. <https://ecommercenews.eu/why-amazon-struggles-in-europe/>  
9. <https://www.aboutamazon.com/amazon-fulfillment/our-fulfillment-centers/fulfillment-in-our-buildings/>  
Sortable fulfilment centres are responsible for smaller items, the largest of which can extend on a surface of up to 75,000 square metres. Bulkier items are processed in the non-sortable warehouses which are smaller in size at c. 55,000 square metres. The third type are sortation centres where orders are grouped by final destinations. Receive centres at c. 55,000 square metre store large inventories of items with a fast turnover rate. Specialty warehouses serve specific product types or purposes. Finally, delivery stations are responsible for last mile deliveries  
10. <https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2019/themes/transportation-logistics-trends.html>  
11. <https://gkidigital.hu/2019/10/15/online-marketplace/>



# E-COMMERCE

## KEY DEMAND TRENDS ON THE INDUSTRIAL MARKET IN CEE

**About 1/5 of our responders expect that the key driver of demand will be e-commerce in the greater Budapest area, and almost 25% of them expect e-commerce to drive demand in the countryside in the coming 3 years.**

Still, we see room for e-Commerce to continue to grow from its current low-level in Hungary. However, due to the significant weighting of the export production in the economy, **we expect that big box logistics and export manufacturing will sustain its dominant share in demand in the coming years.** Manufacturers and retailers are searching for locations near large consumption centres, as close to the consumer as possible. **We see that e-commerce really intensifies the focus on distribution centre location strategy in Hungary.**

## LAST MILE DELIVERY

Customer expectation of fast and cheap delivery is quickly growing into a must in the e-Commerce sector. Last mile delivery refers to the product's journey from the warehouse shelf to the customers' doorsteps. This is the most costly and time-consuming step in the delivery process, on account of the frequent low volume drop-off stops.

The key challenges facing last mile delivery in urban areas are congestions, while in rural areas, the critical problem is the significant distance between stops. The solution will likely arrive in the form of a combination of current carriers in the parcel market and the emergence of new technologies.

The key challenge in delivery stations is the special floorplan requirement. A delivery hub needs the greatest number of docks on site, which makes it indispensable to modify the shape of the buildings, whereby reletting them to any other type of tenant becomes impossible.

**Developers are unlikely to take this high risk for a low price which could explain the trend of these types of assets often being owner-occupied.**

In our recently published report, 'the Last Link, Quantifying the Cost' study<sup>12</sup> we have found that **getting the last mile delivery right is so important that giga retailers such as Alibaba and Amazon are planning on bringing it in-house along with the rest of the supply chain.**

## LAST MILE DELIVERY IN HUNGARY

**Last mile delivery is often outsourced by eRetailers in Hungary, and performed by CEP (courier, express and parcel) companies.** The turnover of the largest players such as DHL, DPD, Express One, Sprinter, TNT or MPL (the Hungarian Post) has exponentially grown in the last couple of years, which confirms that the e-Commerce market is expanding in Hungary.

**They are in the process of setting up the right logistics portfolio, which is of a Budapest HUB and an extensive depot network in regional cities.** The Budapest HUBs are generally leased from the speculative stock built according to high international standards. Depot networks are generally owner-occupied schemes, primarily due to the shortage of suitable stock. MPL as an example has opened new depot locations: in Nyíregyháza and another in Füzesabony.

## WHAT IS THE IMPORTANCE OF E-COMMERCE AND LAST MILE DELIVERY TO YOUR PORTFOLIO?

## HOW DO YOU SEE IT WILL CHANGE OVER THE NEXT 3 YEARS?

### Domonkos Joó

Logicor / Senior Asset Manager Hungary & Slovakia

From the perspective of a landlord primarily holding big box logistics, we see no significant difference in the property requirements of e-Retailers or any other retail occupiers.

We see however, that the importance of CEP companies is emerging in the capital and their real estate requirements have cut a remarkable slice from the "take-up cake". We all know that the highest priority for such businesses is the right location suitable for fast and efficient delivery.

Therefore, they are in need of setting up the right main HUB and depot network which might develop into visible future demand, but not in the short term. Still, their property need is limited to a "shed" around their material handling systems which are automated robots in reality, and as such those are the key to their business success.

“

**CEP COMPANIES HAVE CUT A REMARKABLE SLICE FROM THE "TAKE-UP CAKE".**

DOMONKOS JOÓ

### Rudolf Nemes

CTP / Country Manager

I see demand is focused on the capital and primarily dominated by local e-Retailers. They are less significant drivers of the demand which I foresee to remain unchanged in the short term. This is due to the relative low share of e-Commerce from the total retail sales in Hungary. My feeling is that this might be rather cultural than a structural difference in our retail consumption patterns.

### Ádám Székely

InfoGroup / Managing Director

E-Commerce is not an important segment for us at the moment as we are present only in countryside locations to date. I do not see such demand in our existing locations, whereby I expect last mile delivery will be growing over the medium term even in the countryside. This supports the increasing CEP demand for a Budapest HUB combined with a countryside depot network scenario manifesting nationwide.



# CITY LOGISTICS

*While traditionally City Logistics (CL) referred to assets within the borders of Budapest (regional cities are not served with CL yet), nowadays it is more a reference to the floor plan of the buildings. City logistics is usually composed of several smaller units, while regular logistics usually comprises one or more big box units.*

## CITY LOGISTICS SCHEMES





# CITY LOGISTICS

*City logistics accounts for less than 9% of the total logistics stock in Budapest at a total size of 200,000 square metres. In terms of the Amazon warehouse sizes discussed earlier in this report, the entire city logistics stock of Budapest equals approximately 4 average size Amazon warehouses. **In Budapest, we see that there are several CL and big box locations at almost same distance from the city centre.***

*Main tenants are typically smaller retailers/distributors/service providers who need to reach their customers within the shortest possible amount of time and distance. The key motive behind tenants staying away from CL if possible is the significant price gap between city and big box logistics. Strong rental growth potential for last link depots puts logistics in the same revenue ball park as traditional urban land uses.*

*Traditional city logistics locations are being outpriced by uses such as residential or office in the current economic cycle in Budapest and so, logistics is being pushed further away from the city centre. At the same time, **demand from eRetailers and 3PLs for just such locations is picking up and therefore we anticipate more developers will accept the risk to speculatively purchase industrially-zoned sites closer to the inner city in the coming years.***

## HOW DO YOU SEE THE DEMAND FOR CITY LOGISTICS WILL CHANGE OVER THE NEXT 3 YEARS?

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**THERE ARE SOFT FACTORS THAT WOULD SUPPORT SUCH A DEVELOPMENT CONCEPT, SUCH AS THE HR FACTORS ”**

DOMONKOS JOÓ

**Domonkos Joó**

Logicor / Senior Asset Manager Hungary & Slovakia

Whilst city logistics is increasingly pushed out from central into outer areas of the capital due to the higher value land uses that are available, there are soft factors that would support such a development concept, such as the HR factors (i.e. the work-life balance of the workplace being closer to residential areas). Prime examples for new locations include District 9 and 22. The “small tenant in the big scheme issue” is apparent, whereby they are more exposed to large occupiers’ business and real estate decisions for big box schemes.

**Rudolf Nemes**

CTP / Country Manager

I see increasing demand for city logistics in Budapest. Location, price and efficiency remain the key drivers, however new development is limited by the actual price of inner-city plots.

**Ádám Székely**

InfoGroup / Managing Director

As regards to city logistics, we see that only the capital city is served with significant city logistics stock so far. We don't see many opportunities for such type of development in the countryside as most of the occupiers are wholesale retail businesses focusing on Budapest.

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**NEW DEVELOPMENT IS LIMITED BY THE ACTUAL PRICE OF INNER-CITY PLOTS.**

RUDOLF NEMES



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