



Q3 2018: Hungary Commercial Property Monitor

Sentiment remains positive across both occupier and investment sides of the market

Momentum in Hungarian Commercial Property market remained positive in Q3 2018, with demand continuing to outstrip supply in both the occupier and the investment markets, underpinning solid near term capital and rental value expectations. Monetary policy remains accommodative and is likely to do over the coming quarters, indeed this chimes in with the feedback in the latest results where contributors, on balance, have reported an improvement in credit conditions.

Occupier Market

- The Occupier Sentiment Index (a combined measure of occupier market indicators displayed in chart 1 overleaf) moved to +36 in Q3 from +48 previously signalling positive momentum behind occupier market dynamics.
- Occupier demand continued to rise in Q3 with tenant interest rising in all three areas of the market (office, industrial and retail). That said, at an all sector level, the pace of growth (in net balance terms) was the slowest since 2015.
- Alongside this, the availability of supply for investment purposes increased only marginally driven by an increase in supply of office space. Virtually no change in supply was reported in the retail sector whilst availability of industrial properties fell marginally.
- Meanwhile landlords decreased the value of incentive packaged offered to tenants in all areas of the market.
- Contributors revised down their rental value projections for the coming year (chart 6). Still, the near term outlook appears to be reasonably solid, rents are expected to increase firmly in prime locations. Projections for secondary sub-sectors are modest in comparison, but remain positive nevertheless .
- Over the next three years, although contributors still expect rental values in the prime sub-sector to outpace their secondary counterparts, projections for secondary industrial sub-market have been revised up over the past year.

Investment Market

- The Investment Sentiment Index (a composite indicator incorporating a range of investment market variables shown on chart 1) returned a reading of +43 this was unchanged from the previous quarter and is consistent with solid momentum behind investment market fundamentals.
- Investor demand continued to rise firmly at the headline level, led by the office sector, significantly demand growth in office properties has been outperforming interest in retail and industrial sectors since 2015. Demand from foreign investors also increased firmly across all three areas of the market.
- The availability of supply for investment purposes declined for the first time since this series began in 2014.
- Capital values projections for the coming year were scaled back across all sub-markets relative to Q2 (chart 5). Although values in prime assets are still expected to outperform those in secondary locations, in the latest results, contributors envisage the gap between the two areas narrowing
- The majority of respondents (50%) believe that the market is closes to peaking, whilst 39% see the market as in the early to middle stages of an upturn.
- More than two thirds of respondents to the survey see commercial property as fairly valued (chart 4).
- On balance credit conditions improved the quarter with 33% of respondents noting some degree of improvement (chart 3).

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indices

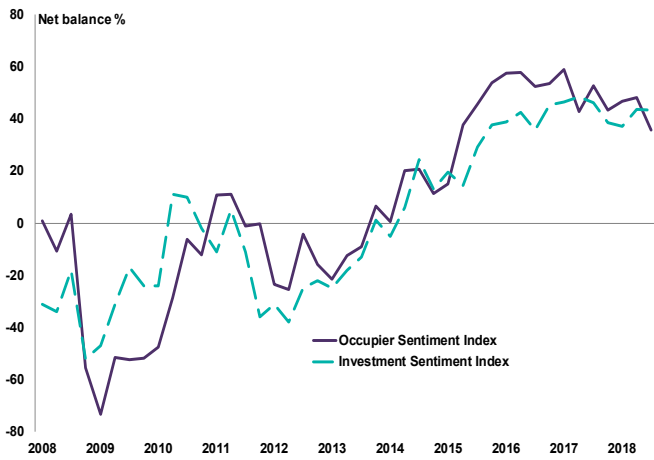


Chart 2: 3-month Rents, Capital Values

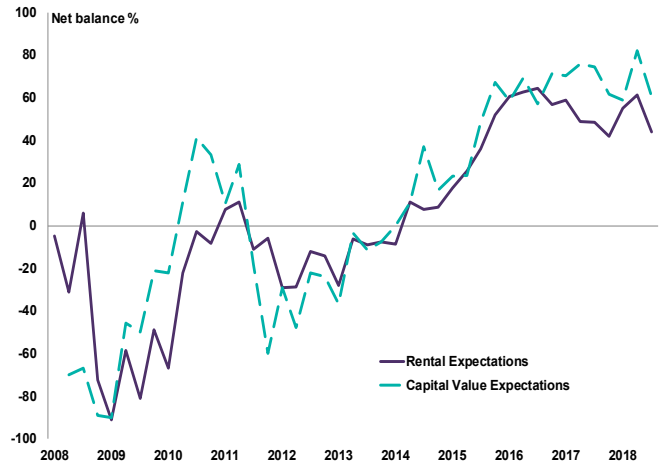


Chart 3: Credit Conditions

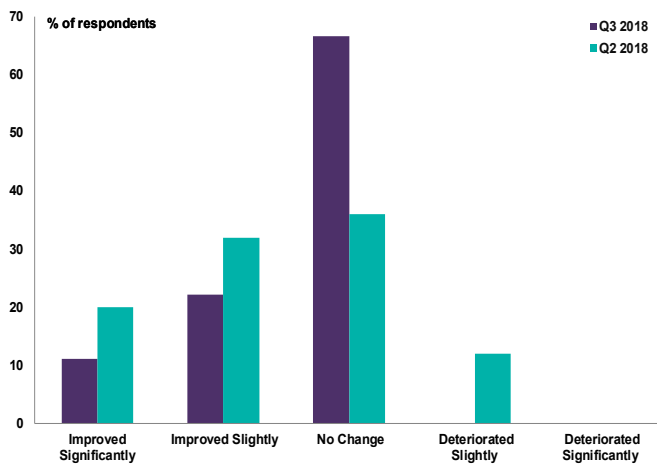


Chart 4: Valuations

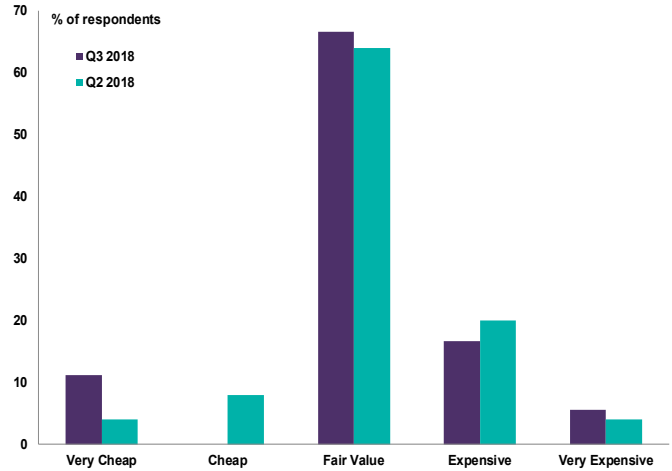


Chart 5: 12-month Capital Values Forecast

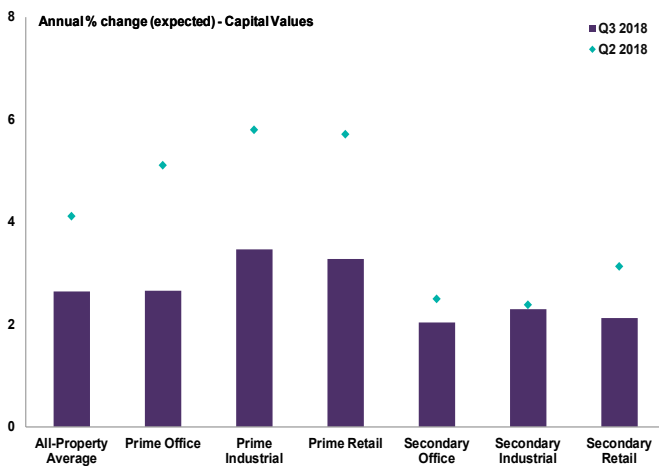
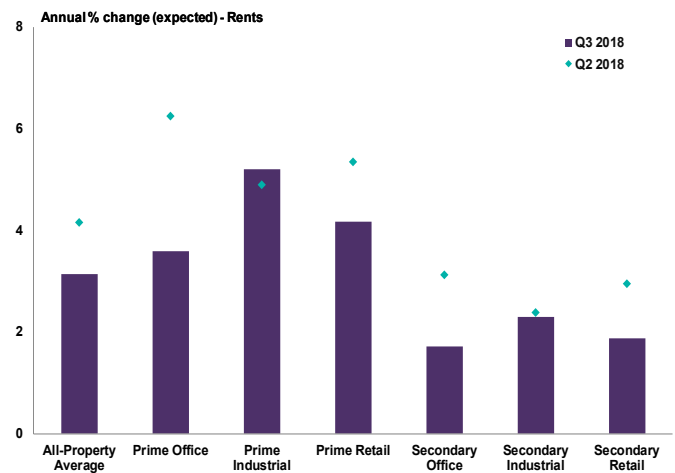


Chart 6: 12-month Rent Forecast



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 13 September 2018 with responses received until 14 October 2018. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1791 company responses were received, with 341 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for New Zealand were collated in conjunction with Property Council New Zealand. Responses for Malaysia were collated in conjunction with the Royal Institution of Surveyors Malaysia.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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