



# Dreams of Sleeping Beauty

The political situation forced the developers into a wait-and-see position in most places.

**When do you expect the upturn and what new legislative amendments and proposals would make it easier for the investors? What has changed in the banks' attitude; what steps can be expected, and when (financing)?**

**R-CO:** We will have to wait some more for the upturn, I think. The bank tax will make financing especially difficult, as it takes away the profit that could be realized on this kind of transactions. Consequently, the banks will not take great pains to grant credit for developments. It is the growth on the demand side that could give a start to developments; the relevant measures are yet to be seen (tax reduction?).

**Orco:** The ways of the country shall be changed to make Hungary a target for investments, however, it will take very long for the results of the changes to be felt. The exceptionally good projects and the developments with a previously contracted customer or tenant are the only ones with a chance to be successfully implemented on the property market in the next few years. The banks, together with the developers, 'got stuck' with many projects, therefore the first priority in the next few years will be to solve and 'digest' these project problems, I think.

**RM:** Changing the different taxes in the proper direction has a positive impact on the sector, of course. The implementation of a new project, however, spans several eras from acquisition of the plot till handover; thus a good investor must take into account the related risk factors too. Under such circumstances the given local government's supportive attitude to investments, and the local provisions and flexibility can be of great importance.

In the past months banks have shown an increased interest in the financing of property investments again; however, the requirements are now stricter than before the crisis in respect to the interest, the rate of own capital and the pre-lease rate alike.

**ECE:** A tendency of slow increase emerging from stagnation has been tracked during the past weeks; however, no perceptible upturn is expected before the first half of 2011.

Extinguishing the institution of external payment management by a trustee (or revision and future implementation thereof) could be one of the legislative amendments to ease the life of investors and developers. The banks are still careful in financing large investment projects, and it is to be feared that this will only slowly change.

**When do you expect a complete saturation of the market to occur? Has the development of shopping centres already reached a level of saturation in Hungary/Budapest at which new projects are no longer worth starting?**

**What are the possibilities for the future and where can the breakout points be in a situation like this? What will happen to the centres that cannot keep the pace?**

**Orco:** I think the point of saturation of the shopping centre market has already been reached in Budapest. However, special exceptional projects always have their place. With the considerations of location, operating efficiency, aesthetics and human-centredness duly taken into account new developments are still worth starting! If the new management of the capital succeeded in creating a more modern and more economical city and fully 'reforming' the city structure, that would provide opportunities of great potentials for investors and developers.

**RM:** I believe there are still great potentials in this sector at a country level; one just needs to reasonably select the location of the investment project along with the proper concept for the given location. For the existing centres it is very important to be a match for the new ones; that is, good management providing a continuous renewal is a first priority.

**ECE:** I believe the market will be saturated in 3-4 years in the capital, and then cannibalism will follow: the weakest and those at more disadvantageous locations will face serious problems.

In major country towns there may still be a longer run-out period for shopping centres built in the right places, but the demand is significantly influenced here also by the economic

capacity of the region, the purchasing power and the unemployment rate. In middle-sized towns there is a potential for developments; however, for much smaller centres and multifunctional buildings only.

**R-CO:** The shopping centre market is near saturation in Budapest. One or two new appearances can be expected at most, in prominently good places (Mundo, Etele Square), but even the development of these will start with the upswing of the demand side only, in 2-3 years, I think. Generally speaking, only those shopping centres will remain viable in the future that break out of the usual framework and expand their palette of services.

**In the light of experience gathered so far the 'adventure' offered by the outlet concept has not become the favourite way of shopping of Hungarian public – not beyond the impact of novelty.**

**What can be the secret of the strip malls, which are very widespread on the other hand? Is the attractive force of hypermarkets alone sufficient to satisfy those needs of the Hungarian public (complaining about lack of time and money) beyond the purchase of groceries?**



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**RM:** There are several reasons for the outlet concept not having been able to become an integral part of the Hungarian shopping culture. One could start with the name, continue with the locations and close with the prices, which are in very many cases still high for the average Hungarian customer.

The target locations of the 'strip mall' concept are those countryside towns where there aren't any multi-storey shopping centres (or, if there are, they are either too unfamiliar or too expensive for the majority of the population), and the strip mall is the place where people can buy their foodstuffs at the weekend, and get all other shopping done in the same breath.

**ECE:** I don't consider strip malls outstandingly successful, with a few exceptions. In an international outlook maybe this is the form of commercial property that has been struck the most by the crisis. We have several strip malls in Hungary too that are wrestling with enormous difficulties. Nevertheless, there certainly is grounds for the existence of this form of shopping centres at some locations and towns. In this case the key to success is either their being close to the customers, or a competition free environment combined with low rents and operating costs.

**Orco:** The answer to this is very complex. Outlets are generally located outside the towns. Location is of primary importance. Most people don't do targeted shopping, so it is very important that shopping centres or shopping places be focused on people as human beings and not only as customers.

**How has the crisis changed your concepts as regards your latest projects and those currently in the phase of preparation or construction? How have pre-lease requirements changed? Were you under pressure to compromise as to the tenant mix of your new projects?**

**ECE:** The crisis has evidently affected the activities of all developer companies; in our case this meant that our works in preparation phase had to be started later.

As regards the lease-out requirements: although the average rent has slightly decreased, the major challenge is not the achievement of the calculated rent, but rather the high-standard tenant composition expected of us; as there are many concepts the owners of which have not opened any new stores recently.

**R-CO:** Pre-lease is still essential on the retail market; no development project can be started (due to financing problems) or opened without it. As regards the retail mix the most important thing is that the developer shall by no means compromise the original concept under the pressure of the crisis. The best plan is to create a good retail mix, even at lower base rents that can be compensated by the sales-proportional rents.

**Orco:** It is the structure of the lease contract that changed the most. Rent requirements have somewhat lowered, and to compensate for this we now prefer short-term contracts. We believe this is only temporary, and rents will slowly, but steadily rise again as

the economy grows. There will not be a uniform extent of increase; the greatest rise is to be expected in the centres of town, at places where physical growth is limited.

**RM:** Due to our solid professional and financing background not even the crisis could make us stop or suspend any investment projects. Lease-out was more difficult, however, as formerly active retail chains have stopped expanding as a result of the crisis. Nevertheless, when selecting the tenant mixes we tried to create the same variety we used to have before.

**How would you describe the differences (as to tenant mix and lease-out, aesthetics, technical solutions, technical sustainability, etc.) between the implementation of a development basically intended to be sold, and that of a building that remains the investor's own property/is retained under the investor's management after handover?**

**R-CO:** In principle, the basic rent is of more importance in the case of buildings intended to be sold, as this serves as the basis for pricing; however, buyers are now taking a closer look to see if the contractual commitments of the tenants are realistic or not.

It is true also that in the case of buildings to be sold the accounts shall be more clear and transparent, as investment funds and other buyers are not willing to undertake any related conflicts, whereas the operating costs are likely to be paid more attention to in the case of developments that remain the investor's own property.

**Orco:** There is a major difference, as the goals are totally different too. The primary goal with buildings to be sold is quick profit. The main goal with developments to be owned and operated is value creation. The latter requires much more energy to be spent on the quality of implementation, on human-centred services and long-term return.

**RM:** In my opinion a development that is basically intended to be sold must be of just as high standard in all respects as a building to be kept by the investor until long after handover. Actually, the pressure is lower in the latter case, as there is room for initial compromises, because it is possible to continue with developments and enlargements, and correct any faults later on in the course of operation under the investor's own management.

**ECE:** Technical sustainability and economic operation are of primary importance today, as they can generate savings on behalf of both the operating party and the tenants – especially in the long run. The tenant composition established shall meet the widest possible range of customer needs and be attractive as a whole for the visitors. Developments intended to be sold from the beginning hold the risk that maximized rents will probably need to be decreased during the period after opening as a function of the current market situation, which in turn will undermine the friendly and trustful relations between the new owner of the project and the financiers/investors.