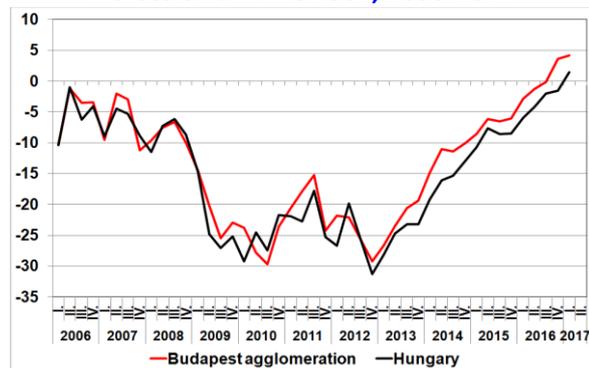


Home market still lead by Budapest, other areas catching up in commercial properties

(GKI survey results for January)

In January 2017, the Budapest and the Hungarian real estate market indices of GKI-MGYOSZ stood at +4 and +2 points respectively. The index figure in Budapest was slightly up (within the error margin), while the national index has increased 3 points. Compared to one year earlier, both indices went up 7 points

The Budapest and Hungarian real estate market indices of GKI-MGYOSZ, 2006-2017



Source: surveys of GKI

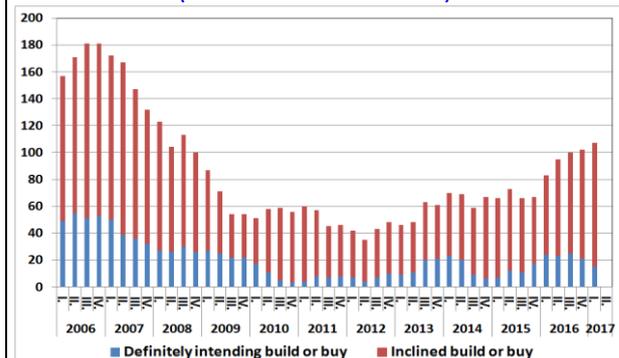
GKI has been conducting quarterly surveys to assess the plans, intentions and prospects of companies engaged in real estate activities (developers, realtors, consultants and operators) and households in the real estate market. From 2016 on, these surveys are supported by the largest Hungarian organization representing the interests of employers, the **Confederation of Hungarian Employers and Industrialists (MGYOSZ)**. Respondents of this survey included 110 real estate firms and 1,266 companies. The household sample contained 1,000 people, and it was representative on gender, age, residence and education level. The Budapest and the Hungarian real estate market indices synthesize **the expectations for the next year's prospects** of the individual market segments (including residential, office space, retail space and warehouse markets), providing an overall view on the prospects of the entire real estate sector.

Residential market: Budapest soars further

Compared to October last year, **the housing market index** (that boils down expectations of property companies and households into a single number) **went up 2 points in Budapest but practically has not changed for the whole country** (dropped within the error margin). Compared to one year earlier, the Budapest index went up 7

points and the national index improved 4 points. The index in Budapest was so high only back in 2006 thus its present level is at an **11-year high**. In non-Budapest areas, small uncertainty developed but the outlook is still **fundamentally positive**.

Housing construction and purchase intention of households in the coming year, 2006-2017 (thousand households)



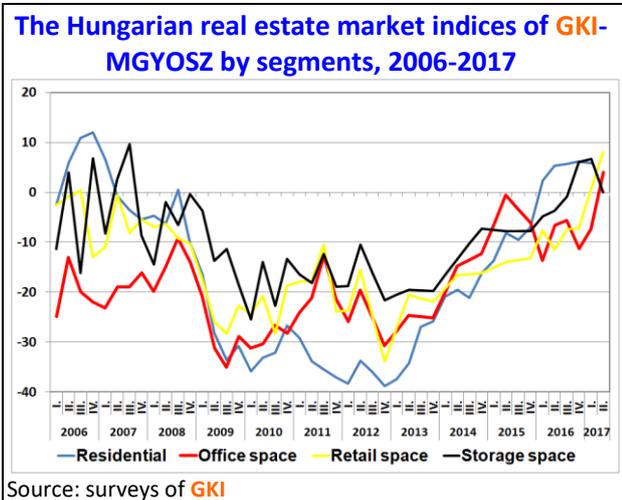
Source: surveys of GKI

Compared to the previous survey, **expectations of households for purchasing and constructing residential homes have not really changed**. Among those who were certain that they will purchase or build a home in the coming twelve months, a small uncertainty has developed but among those who were considering a purchase or construction there was a definite increase. Compared to one year earlier, the increase in expectations is significant. Within this, there is a small drop in the first group but there is an even larger increase in the second. **The outlook on home renewals and modernisation has suffered a setback** compared to both a quarter and a year earlier.

Home prices in Budapest are expected to rise faster. In October last year, 28 percent of respondents believed that prices were going to increase but now 47 percent thinks so. The share of those who saw prices stagnating has dropped from 53 percent to 45 percent. The average price increase in Budapest attributed to the coming 12 months was close to 3%. In Buda or in popular Pest areas the price increase may reach 3-4 percent. **In Eastern Hungary** it is small (about 1 per cent) but **in Western Hungary** it is close to 3 percent. Concerning **new home prices**, respondents seeing expanding prices constitute a significant majority (62 percent) seeing a 4-6 percent price rise.

Construction site market: clouds after sunshine

In January, the **GKI** construction market index went down 5 points in Budapest and has fallen 11 points in the whole country compared to our previous survey. The value of the index in Budapest has returned to its level reached a half year ago, and the national index went back to its level reached a year earlier. That is respondents see a less overheated market in the near future. According to respondents, construction site prices went up on average 8 percent in 2016, compared to the previous year. They felt an even faster price rise in Budapest, reaching about 12 percent. According to property companies **construction site prices will go up some 4-6 percent in the coming 12 months.**



Office space market: modest improvement

In Budapest and its region, the **occupancy rate** has been improving almost continuously for years. According to the present survey, the average occupancy rate was 85.5% in the fourth quarter. This is nearly 2 points higher than one quarter earlier and up to almost 3 points from one year earlier. A kind of rising trend is also present in non-Budapest areas, although there are setback periods in it. The occupancy ratio in Eastern Hungary reached 76 percent up from 71 percent a quarter earlier, while in Western Hungary it has increased from 76 percent to 80 percent.

In early 2017, the **GKI office space market index went up 1 point in Budapest and has increased 3 points nationwide.** Compared to one year earlier, the increase was 5 points in Budapest and 6 points nationwide. In both cases, earlier indices were higher but the present outlook is not gloomy just the opposite.

Concerning **office rent fees**, the majority of respondents (61 percent) see stagnation, and the

share of the ones seeing rising rents (35 percent) is not small either. Respondents on average forecast about 3 percent increase in rent in Budapest but the increase in areas outside of the capital, especially in Eastern Hungary will be much smaller.

Retail space market: non-Budapest areas catching up

No new shopping malls were opened over the past years but the number of discount chains is on the continuous rise. Retail turnover will remain expanding also in the near future. New companies will enter the market, while others leave it. **The gap between the Budapest and the national retail space indices has narrowed a bit recently.** The first went up 1 point and the latter expanded 8 points. Compared to one year earlier, both indices increased 8 points. **Rent fees** have gone up 1-2 percent on average, although with a large variance. In Eastern Hungary the increase was even smaller.

Logistics real estate market: negative correction

Compared to the previous survey, **the GKI logistics real estate market index dropped 4 points in Budapest and went down nearly 1 point nationwide.** Compared to one year earlier, the first has increased 4 and the latter 11 points. The present drop in Budapest could be explained by expanding supply in the capital. Present index levels are only a bit behind the peak hit earlier thus the outlook is still positive. The **occupancy of storage space** was 85 percent in Budapest and its region, while it was 82 percent in Western Hungary and 80% in Eastern Hungary. **Rent fees** will likely to go up 2-4 percent in the coming 12 months. The increase will be the largest in Budapest and its region.

Expectations regarding prices of real estate in the next 12 months, January of 2017

(Percentage changes compared with current prices)

	Budapest	East Hungary	West Hungary	National average
Used homes	2.7 (1)	1.3 (2.2)	2.8 (3.3)	2.3 (2.2)
New homes	4 (5)	5 (2.5)	6 (4)	5 (4)
Office space	2.5 (1)	0 (0)	0.7 (0)	1 (0.3)
Retail space	1.5 (2)	0 (1)	0.5 (1)	0.7 (1.3)
Storage space	3 (1.5)	0.5 (3)	3 (2)	2.2 (2.2)
Constr. sites	4 (3)	6 (6)	5 (3)	5 (4)

The results of the previous (October 2016) survey are shown in parentheses. Source: surveys of GKI