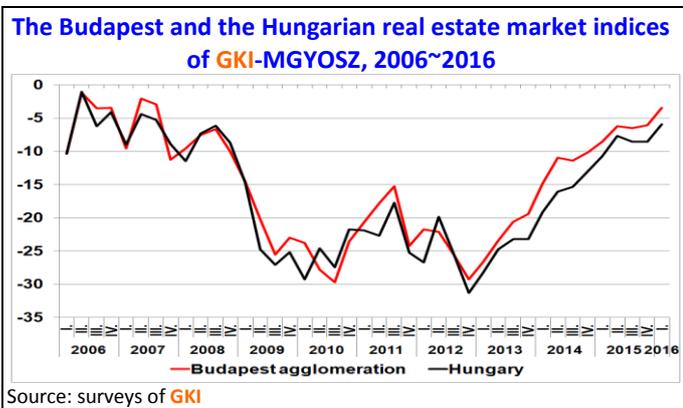


GKI-MGYOSZ REAL ESTATE INDEX AT ITS NINE-YEAR PEAK (GKI-MGYOSZ SURVEY RESULTS FOR JANUARY 2016)

In January 2016, the Budapest and the Hungarian real estate market indices of **GKI-MGYOSZ** were higher than in the previous quarter, in both cases by almost 3 points. This represents a **35-quarter peak**: last time the index was as high as this in the third quarter of 2007. **Since the beginning of 2013 expectations in the real estate market have improved noticeably, with some minor fluctuations. Current prospects reflect overall optimism not seen for a long time**, although there are some differences between the development paths of individual market segments.



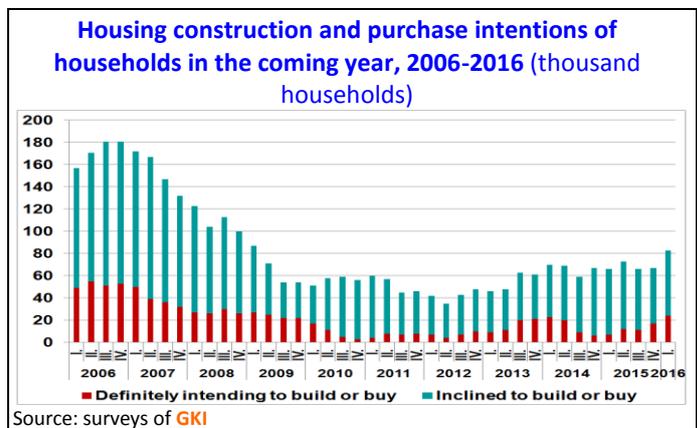
GKI has been conducting quarterly surveys to assess the plans, intentions and prospects of companies engaged in real estate activities (developers, realtors, consultants and operators) and households in the real estate market. **From 2016 on**, these surveys are supported by the largest Hungarian organization representing the interests of employers, the **Confederation of Hungarian Employers and Industrialists (MGYOSZ)**. Respondents of this survey included 110 real estate firms and 1147 companies. The households 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 the residential, office space, retail space and warehouse markets), providing an overall view on the prospects of the entire real estate sector.

Residential market: effects of the home purchase assistance scheme (CSOK)

Expectations of households concerning the purchase or building of homes **improved substantially** compared to last quarter. The number of households definitely intending to buy or build homes increased by 41 per cent, whereas the number of those households that were inclined to do the same went up by 18 per cent compared to last October. This represents a **seven-year peak**; similarly favourable data were recorded at the beginning of 2009. The housing policy measures announced have aroused the public's interest, and

survey results show that a **"CSOK fever" is raging**. However, the current prospects are much less powerful than those before the crisis. **Expectations for housing renovation and modernization** also improved: the ratio of those definitely intending this went up by 11 per cent, whereas the ratio of those being inclined to do the same increased by 20 per cent.

Respondents engaged in real estate activities expect **strongly improving market conditions in rural areas** in the next 12 months compared to the previous quarter, and stagnation **in Budapest and its surroundings**. As the real estate market in Budapest had recently recovered, the latter was not a gloomy prognosis, only a very slight decline in optimism. Prospects in western Hungary remained considerably more favourable than those in eastern Hungary. Although with minor fluctuations, housing market indices have essentially been growing steadily and significantly since the beginning of 2012. In the current survey the Budapest index rose by 5 points and the national index by 10 points.



In the case of second-hand homes in Budapest, the majority of respondents (59 per cent) now expect price increases in the next 12 months. In rural areas those anticipating stagnation are still in the majority (in the eastern region 43 per cent, in the western region 53 per cent). In rural areas, the expected price rise increased only slightly compared with the previous survey (to 2 per cent in the east and 4 per cent in the west). Not so in **Budapest, where the expected average price increase reached almost 6 per cent compared with 2.4 per cent a quarter of a year ago**. In the case of **newly built homes**, projections reveal **more prominent price increases (5-8 per cent)** for the next 12 months.

According to the large majority of respondents, the **housing policy measures** that came into force at the

beginning of 2016 will have a positive effect on housing: 36 per cent expect significant improvement, 43 per cent expect slight improvement and only 21 per cent believe that there will be no meaningful effects in 2016. Although opinions are more diversified on the longer-term impact, the overall picture is clearly positive. **Those living in Budapest are expected to use the incentives offered by the government first.** If the opinions on short-term and medium-term effects are compared, **the Budapest market seems to be the biggest winner of the government's measures.** Housing policy tools are **raising the turnover in the market of used homes both in the short and longer term.** This is the opinion of 66 per cent of the respondents; however, 27 per cent of them do not expect substantial impact, and 7 per cent of them think that the result will be a decrease in turnover. These proportions regarding the longer-term effects were 64, 30 and 6 per cent, respectively. In the light of expectations regarding an increase in turnover, it is not surprising that respondents believe that **the measures will generate a price increase.** 80 per cent of the respondents think that these factors will raise prices in 2016, whereas two-thirds of them expect that they will exert their effects in the longer run.

Building land market: a real blast

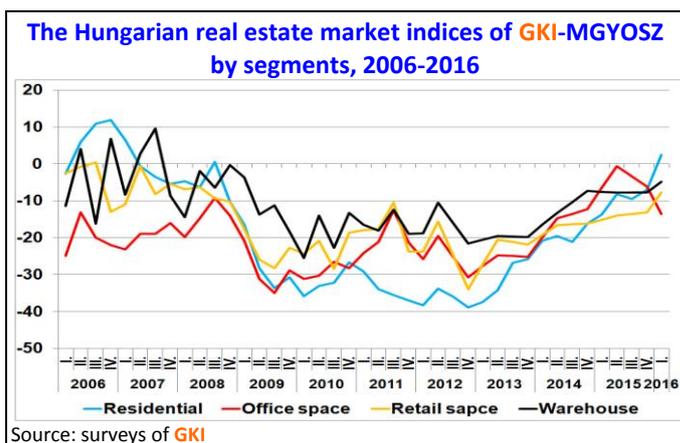
Compared to the previous survey, building land market prospects of the responding real estate companies improved significantly for the coming year in western Hungary, and they also improved in the other two regions. Companies in the Budapest agglomeration reported excess demand already a quarter of a year ago, and now companies in western Hungary joined them. **Optimism previously registered regarding Budapest can now be seen in rural areas as well,** probably a result of the announced housing policy measures. Respondents' expectations on prices are also euphoric. Price increases are expected to reach **double digits in Budapest, and 7-8 per cent in rural areas** in the next 12 months.

Office market: improving capacity utilization, subdued outlook

The results of this survey show that **occupancy rates further improved** in Budapest and its vicinity. This positive trend has been noticeable from the end of 2014. In the fourth quarter of 2015 the average rate in Budapest (82 per cent) almost reached its eight-year peak. In the countryside the picture is mixed: in the eastern region the occupancy rate increased to 70 per cent from 67 per cent of a quarter of a year ago, while in the western region the rate dropped to 72 per cent from the previous 75 per cent. **Office market prospects have been deteriorating for three quarters,** indicating

that the former, otherwise strikingly optimistic, expectations were not entirely justified.

The Budapest office market index fell by 3 points in January 2016, whereas the national one dropped by almost 8 points. Expectations essentially returned to their level of the fourth quarter of 2014. Therefore, the market may develop at a pace slower than previously thought. Although those expecting **rising rents** in the next 12 months are in a slight majority in the metropolitan agglomeration (assuming an average increase of 3 per cent), the basic trend will probably remain stagnation in the countryside.



Retail space market: signs of recovery

In the past two years, prospects for Budapest remained essentially unchanged, and those for Hungary improved only slowly. According to the present survey, **significant positive changes have occurred** in both segments: retail space market indices for the capital and its surroundings, as well as for Hungary increased equally by 6 points. The optimism did not extend to eastern Hungary, where the market situation is expected to deteriorate slightly. **Rents are expected to increase markedly in Budapest and western Hungary (by 3-5 per cent),** whereas they are likely to stagnate in eastern Hungary.

Logistics real estate market: modest improvement

Demand is slowly recovering in the logistics real estate market and **capacity utilization is improving.** According to the survey, the utilization of warehouses was 82 per cent in Budapest, 83 per cent in western Hungary, and 67 per cent in eastern Hungary. The national warehouse market index increased by 3 points over the previous survey, while the Budapest index rose by 2 points. As far as **rents** are concerned, those expecting stagnation are in the majority at national level. However, a significant proportion of respondents expect increases in Budapest and its surroundings as well as in western Hungary (by an average of 3-4 per cent).