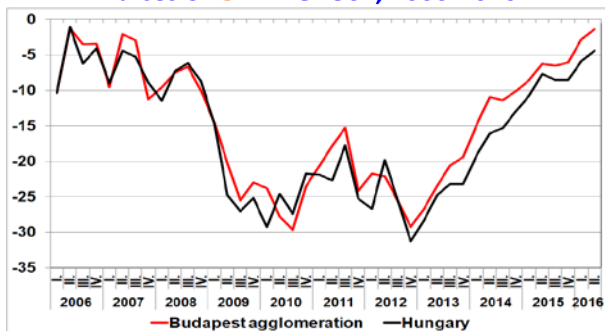


THE BUDAPEST HOUSING MARKET CONTINUES TO ACCELERATE, THE RURAL ONE SLOWS DOWN (GKI SURVEY RESULTS FOR APRIL 2016)

In April 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 2 points. The former index was 5 points higher than a year ago, the latter one by 3 points. The index figures represent a 41-quarter peak for Budapest, and a 37-quarter peak for Hungary.

The Budapest and Hungarian real estate market indices of GKI-MGYOSZ, 2006-2016



Source: surveys of GKI

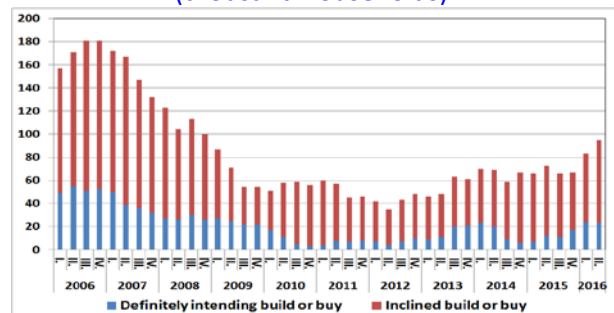
GKI has been conducting quarterly surveys to assess the plans, intentions and prospects of companies engaged in real estate activities (developers, realtors, consultants and operators) and households in the real estate market. From 2016 on, these surveys are supported by the largest Hungarian organization representing the interests of employers, the **Confederation of Hungarian Employers and Industrialists (MGYOSZ)**. Respondents of this survey included 105 real estate firms and 1021 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 continued to soar, whereas rural areas slowed down slightly

The housing market index of Budapest increased by almost 6 points in April 2016 and that of Hungary by about 2 points compared to January. Respondents engaged in real estate activities expect **virtually unchanged market conditions in Eastern Hungary** in the next 12 months compared to the previous quarter, a **slight decline in Western Hungary**, and **further pick-up in Budapest and its surroundings**.

Expectations of households for purchasing and constructing residential homes continued to strengthen slightly. Although the number of households definitely intending to buy or build homes in the next year dropped slightly by 4 per cent, the number of those households that were inclined to do the same went up significantly, by 22 per cent, compared to the January survey. Presumably many people started to contemplate new housing solutions as a result of the big media effect of the government's new housing policy package, but they have not yet reached a final decision. The balance of answers to this question reached its **30 quarter peak**.

Housing construction and purchase intention of households in the coming year, 2006-2016 (thousand households)



Source: surveys of GKI

The expected rise in the price of used homes in Budapest dropped slightly compared with January: the average price increase expected in the next 12 month decreased to 2.5 per cent from 5.8 per cent. The rate of expected price rise increased slightly in Eastern Hungary (to 3.2 per cent), whereas it decreased minimally in Western Hungary (to 3.3 per cent) compared to the previous survey.

The **possible effects of the government's housing market policy measures** were also tested in this survey. According to the large majority of responding real estate companies, the **effect of the home purchase assistance scheme (CSOK) on housing construction is clearly positive:** 38 per cent expect significant improvement, 46 per cent slight improvement and only 16 per cent believe that there will be no meaningful effects in 2016. In the January survey, these three rates were 36, 43 and 21 per cent, that is, the positive assessment of CSOK became slightly stronger. According to the majority of respondents, **extending the CSOK will stimulate the market of used homes.** 62 per cent of them expect this; however, 32 per cent does not anticipate substantial effects, and only 6 per cent

expect reduction in turnover. The relevant rates measured January were 66, 27 and 7 per cent. The vast majority of survey participants (70 per cent) that **house prices are going to rise as a result of the CSOK**, whereas 27 per cent of them do not expect meaningful changes in this respect. A quarter of a year ago the same two rates were 80 and 11 per cent, respectively.

The establishment of the new scheme of **national housing communities (NOK)** will have a **much lower impact than that of CSOK**. One third of the respondents expect a positive impact on housing construction of the NOK, whereas two-thirds of them do not expect substantial impact. Although 30 per cent of respondents expect a stimulating effect of NOK on the market of used homes, only a quarter of them expect a positive effect on house prices.

Building land market: double-digit price increases

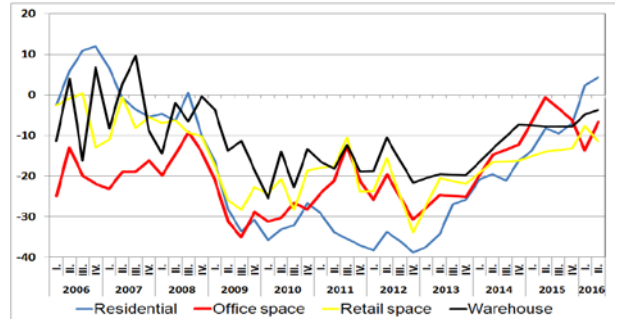
According to the present survey, prospects **continued to improve**, though they were already very optimistic. Expectations of real estate companies for the next year have improved in all three regions. Considerable excess demand prevailed in all study regions included in the survey. Expectations regarding selling prices also became more powerful. Respondents **in each study region expected double-digit price increases** in the coming year: 15 per cent in Budapest and around 10 per cent in rural areas.

Office space market: positive adjustments

The **occupancy rate** in Budapest and its surroundings has consistently **improved** over the past two years, from survey to survey. In the first quarter of 2016 the average rate in Budapest was 84.6 per cent, more than 2 percentage points higher than a quarter before. In rural areas the lowest point was reached around 2010; the trend has been slightly positive since then, with significant fluctuations. In Eastern Hungary the occupancy rate increased to 74 per cent from 70 per cent in the last quarter, whereas in Western Hungary it decreased from 72 per cent to 69 per cent. **According to the April survey**, after the negative developments of the previous three quarters **prospects improved**: the Budapest office market index increased by 3 points, and the national one by almost 7 points. Expectations of **real estate companies** improved slightly in Budapest, and they went up considerably in the eastern region. However, some deterioration was registered in western Hungary. Growth prospects in **office market rents** diminished compared with those a quarter of a year ago. This is

especially true in the Budapest agglomeration. Based on aggregated forecasts, an average rent increase between 1.5-3 per cent can be expected.

The Hungarian real estate market indices of GKI-MGYOSZ by segments, 2006-2016



Source: surveys of GKI

Retail space market: uncertainty prolonged

Following the significant improvement in outlook in January, the current survey reflected **negative correction**. The Budapest index fell by 3 points, whereas the national one dropped by almost 5 points compared to January. The retail space market outlook therefore continues to **reflect significant caution**. Respondents of **real estate companies** were slightly more optimistic only regarding the eastern part of Hungary, and they expected slightly deteriorating market conditions in the Budapest agglomeration and in the west. Representatives of the business sector are not more optimistic either. In the next year **rents** can only increase substantially (by around 5 per cent) in Budapest, and the growth rate in the countryside could be 1-3 per cent, with significant fluctuations.

Logistics real estate market: modest improvement

The **utilization of warehouses increased**: it was 85 per cent in the Budapest agglomeration, 90 per cent in western Hungary, and 75 per cent in eastern Hungary. A quarter of a year ago the same three rates were 82, 83 and 67 per cent, respectively. The **outlook for next year improved only very modestly**, the warehouse market index for both Hungary and Budapest increased only by 1 point. Expectations of real estate companies improved only in eastern Hungary compared with the survey conducted in a quarter of a year ago. However, representatives of the **business sector** predict an increase in demand for leased warehouses in each region. In the next year average **rents are likely to increase** by around 3 per cent in Budapest and its surroundings. In the western part of Hungary an increase of up to 7 per cent can be reached, whereas the main trend will probably remain stagnation in the eastern part.