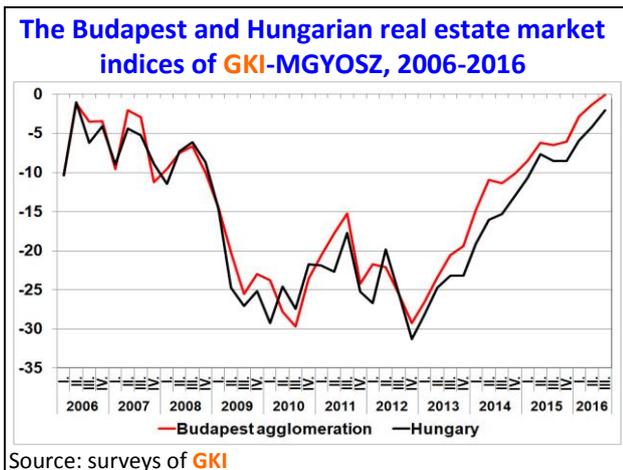


REAL ESTATE BOOM SLOWS BUT GOES ON (GKI SURVEY RESULTS FOR JULY 2016)

In July 2016, the Budapest and the Hungarian real estate market indices of GKI-MGYOSZ - compared to the previous quarter - increased by 1 and 2 points respectively. Both indices were 6 points higher than one year earlier. The index figures represent a 42-quarter peak for Budapest, and a 48-quarter peak for Hungary. That is, such high values have not been seen for ten or twelve years, respectively.

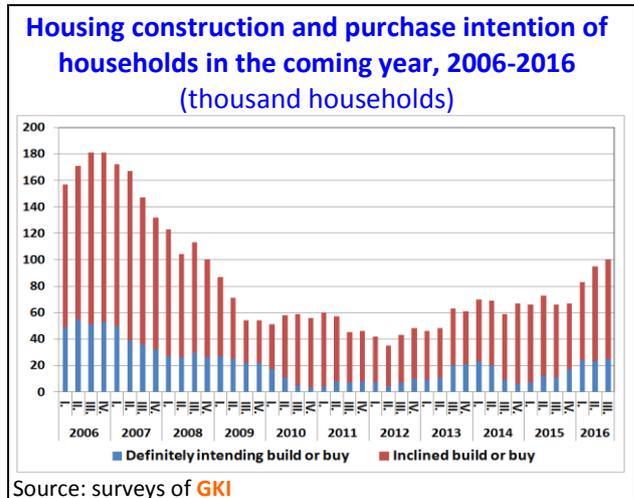


GKI has been conducting quarterly surveys to assess the plans, intentions and prospects of companies engaged in real estate activities (developers, realtors, consultants and operators) and households in the real estate market. From 2016 on, these surveys are supported by the largest Hungarian organization 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: the outlook improved only in Western Hungary.

The housing market index of Budapest decreased by 3 points in July 2016 whereas the nationwide index did not really changed compared to one quarter earlier. The outlook improved only in the West Hungary region.

Expectations of households for purchasing and constructing residential homes continued to strengthen. Among those who were certain that they would purchase or build a home in the coming twelve months the increase was 8 points and among those inclined to do so the expansion was 4 points quarter-on-quarter. Compared to the situation one year earlier, the first group more than doubled and the latter grew by 36 per cent. This significant expansion is explained by the strong media presence of home construction promoting government measures and the return of years long postponed demand. The propensity to purchase homes reached a new, 31-quarter peak – for similarly good figures we have to go back to the end of 2008. The outlook on home renewals and modernisation also improved compared to our previous survey. The share of persons certainly doing it went up by 5 points, while the share of respondents inclined to do so also increased by 10 points.



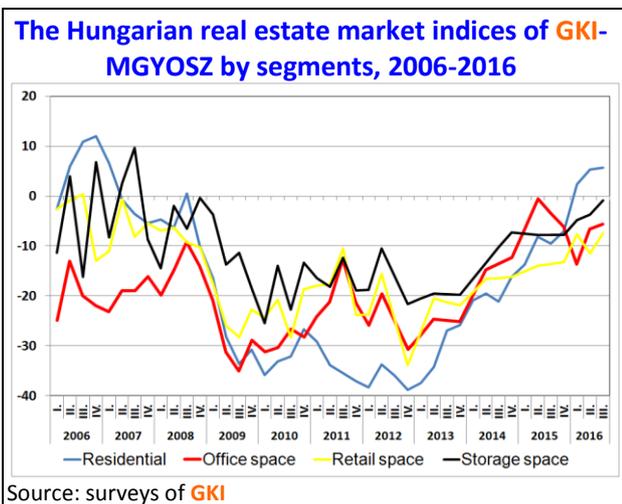
The expected rise in the price of used homes in Budapest – similarly to April – dropped again in July. The average price increase expected in the capital over the next 12 month decreased from 2.5 per cent to a symbolic 1 per cent. In Eastern Hungary the price rise will expectedly stop in the coming 12 months, while nearly 5 per cent average price increase is likely in the West of the country.

The possible effects of the government's housing market policy measures were also tested in this survey. Respondents considered the incentive role of the home purchase assistance scheme (CSOK) in housing construction stronger in April than in July: in the present survey, 10 per cent

believed in a significant, 53 per cent in a modest and 37 per cent in a neutral role concerning the home construction boom. In the April survey, these three figures were 38 per cent, 46 per cent and 16 per cent, respectively.

Construction site market: negative correction

The outlook on the construction site market has improved continuously over the past period and reached an outstandingly high value in April. According to the present survey, **a slight negative correction** occurred in July but the perspective on the building site market is still positive, as indicators still signal significant excess demand. Compared to a quarter earlier, expectations on possible sales prices have been „tamed” that is price rise forecasts dropped in each regions. Respondents **see 3-8 per cent price rises on the building land market over the coming 12 months.**



Office space market: cautious optimism

In Budapest and its region, the **occupancy rate** improved over the past two years from survey to survey but now this positive tendency did not continue. The average occupancy rate was 84.5 per cent in the second quarter that is roughly equal to the level recorded one quarter earlier. Nevertheless, in Eastern Hungary the rate went up from 74 per cent to 75 per cent and in Western Hungary from 69 per cent to 81 per cent.

The office space outlook improved significantly in April 2016 quarter-on-quarter. Now, this was followed by stagnation. **GKI office space indices** did not change significantly, neither in Budapest nor in the country as a whole: increasing by 1 point both – changes within the error margin. On the annual base, the drop is 2 points for both. In the Budapest region, **rents** will go up 2 per cent on

average over the coming year, while stagnation is forecast for the countryside.

Retail space market: significant improvement

Retail sales figures are spectacularly on the rise, expectations on future sales are also positive. Several foreign chains are considering access to or expansion in Hungary. Due to the strong competition this segment is not a clear success story either. Excess capacities do not urge to establish new ones, and this situation will not change significantly in the near future. Nonetheless, the real estate outlook considerably improved in July 2016. **The Budapest agglomeration retail space index went up by 7 points** and it increased by 4 points for Hungary, compared to the previous survey. **Rents** mounted convincingly (by 3 per cent) in Budapest and West Hungary, while possibly stagnation features eastern regions.

Logistics real estate market: better outlook outside Budapest

Demand for logistics space is also picking up and simultaneously to this, occupancy rates are on the rise for a longer period, although effects of previous overinvestment are still perceived. **The occupancy rate of storage spaces is 85 per cent in the Budapest agglomeration, 86 per cent in West Hungary, and 80 per cent in East Hungary.** The corresponding figures were 85 per cent, 90 per cent and 75 per cent in April. The **GKI storage space index** did not change in Budapest but increased by 3 per cent in Hungary – compared to the previous survey. **Rent fees** are expected to rise (by 3-4 per cent) in the Budapest agglomeration and in Western regions, whereas stagnation might prevail in eastern Hungary.

Expectations regarding prices of real estate in the next 12 months, July of 2016

(Percentage changes compared with current prices)

	Budapest	East Hungary	West Hungary	National average
Existing residential unit	1 (2.5)	-1 (3.2)	4.7 (3.3)	1.6 (3)
Newly built residential unit	5 (5.5)	3 (7)	3 (7)	3.6 (6,5)
Office space	2 (3)	0 (1)	0 (2)	0.7 (2)
Retail space	2,3 (1)	2 (2)	4 (2)	2.8 (1,8)
Storage space	4,5 (3,5)	0 (1)	5 (5)	3.2 (3,2)
Construction sites	3 (15)	4 (10)	8 (10)	5 (12)

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