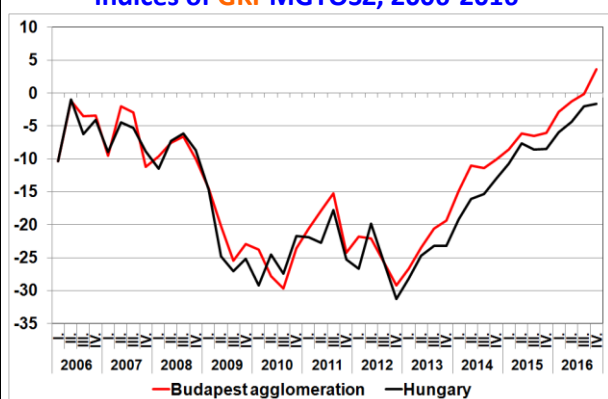


## THE REAL ESTATE OUTLOOK IMPROVES FURTHER IN BUDAPEST (GKI SURVEY RESULTS FOR OCTOBER 2016)

In October, 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 nearly 4 points higher than a quarter earlier, while the national index was almost equal to the figure measured in July (up within the error margin). Compared to one year earlier, the Budapest index went up 10 points and the national one has increased 7 points.

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 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.

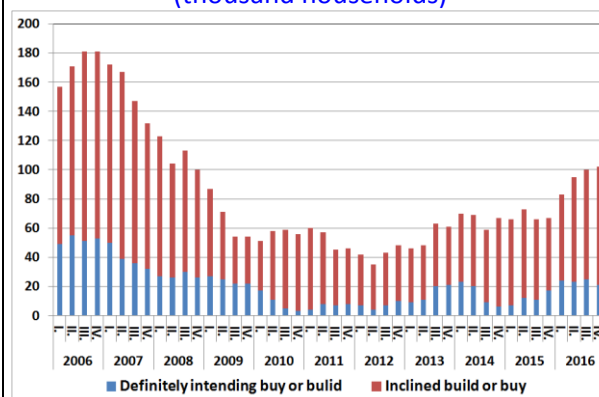
**Residential market: concrete panel building housing estates became popular.**

**The housing market index of Budapest increased by 2 points in October 2016, while the nationwide index has not really changed** compared to one quarter earlier. The outlook has improved in **Budapest**, in the inner city of Pest,

the green belt and concerning panel buildings. In **Eastern Hungary**, the outlook slightly improved, expect family houses. In **Western Hungary**, the outlook became gloomier, except panel buildings.

**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, there was a drop of 16 per cent but among those who were inclined to do so the increase was 8 per cent. This uncertainty means a sort of negative correction, as earlier enthusiasm is fading away, although the positive tendency remains. The improvement is great compared to one year earlier: the expansion in the first group was 23 per cent, while in the second 62 per cent. The propensity-to-buy has reached an **8-year peak** – similar good figures were seen at the end of 2008. **The outlook on home renewals and modernisation** has suffered a significant setback compared to a quarter earlier. The share of persons certainly doing it dived 28 per cent, while the share of respondents inclined to do so also decreased 2 per cent. On an annual basis, the first group suffered 24 per cent decrease but the second gained 25 per cent thus the overall picture is still positive.

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



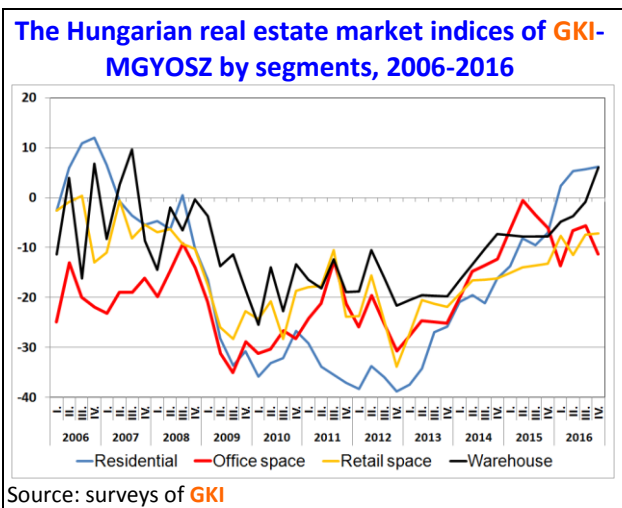
Source: surveys of GKI

**The expected rise in the price of used homes in Budapest has not really changed from a quarter earlier.** Among respondents, 28 per cent sees a price rise in the coming 12 months and 19 per cent forecasts a price drop. The average price increase expected in the capital over the next 12 month is still about 1 per cent. An increase about or over 2% is only plausible in Buda or in the

popular areas in Pest. In Eastern Hungary, the price rise will reach 2 per cent in the coming 12 months while an average 3 per cent price increase is seen in the West of the country. Strong regional differences remain.

**Construction site market: bounced back**

The **GKI construction site index in Budapest increased by 4 points and the national index improved by 5 points** compared to our earlier survey. As a result, the national index has returned to its value reached a half a year ago but the Budapest index could not fully reach its previous level. Price expectations have not changed significantly. Respondents **see 3-8 per cent price rise on the construction site market over the coming 12 months.**



**Office space market: uncertainty**

In Budapest and its region, the occupancy rate has been improving from 2014 to the summer of 2016. In June, it was stagnating but now it has slightly decreased. The average occupancy rate was 83.6 per cent in the third quarter, which is not simply 1 point lower than a quarter earlier but also 3 points higher than it was a year earlier. In Eastern Hungary, the average occupancy ration decreased from 75 per cent to 71 per cent and in Western Hungary it has dropped from 81 per cent to 75 per cent, compared to one quarter earlier.

The office space outlook varied a lot over the past two years and its development has no clear tendency. In October, the **GKI office space index remained stable in Budapest but it has decreased 4 points for the whole country** compared to a quarter earlier. The annual change was a 2 point decrease for Budapest and a 4 point drop for the country. Respondents seeing stagnating **rents** form an overwhelming majority. The average rent

hike in the Budapest region and in Eastern Hungary is forecast at 2 per cent, with obviously a large variance.

**Retail space market: improvement in Budapest**

Retail sales will likely maintain its revenue expansion, although competition remains sharp keeping the sector in flux. Only a few new entrants and expanding companies may emerge but they will likely utilise existing capacities. **The present survey indicates that the development of retail space index in Budapest and the national index started to diverge.** The first went up 4 points but the latter has not really changed. Compared to one year earlier, the Budapest index improved by 14 points and the nationwide index went up 6 points. Respondents see no relevant **rent** hikes in the coming year.

**Logistics real estate market: far better outlook**

Compared to our earlier survey, **the GKI logistics real estate market index has increased both in Budapest and in the country by 7 points.** Compared to one year earlier, the increase in both cases is 14 points. This market experienced an increasing demand over the past period, with small fluctuations but mostly in the Budapest region only. **The occupancy rate of storage spaces is 85 per cent in the Budapest agglomeration, it is 82 per cent in West Hungary, and 76 per cent in East Hungary.** In July, the corresponding figures were 85 per cent, 86 per cent and 80 per cent. **Rent fees** are expected to rise (2-4 per cent) in the Budapest agglomeration and in Western regions, while stagnation will likely 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 (1)	2.2 (-1)	3.3 (4.7)	2,2 (1.6)
Newly built residential unit	5 (5)	2.5 (3)	4 (3)	4 (3.6)
Office space	1 (2)	0 (0)	0 (0)	0.3 (0.7)
Retail space	2 (2.3)	1 (2)	1 (4)	1.3 (2.8)
Storage space	1.5 (4.5)	3 (0)	2 (5)	2.2 (3.2)
Construction sites	3 (3)	6 (4)	3 (8)	4 (5)

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