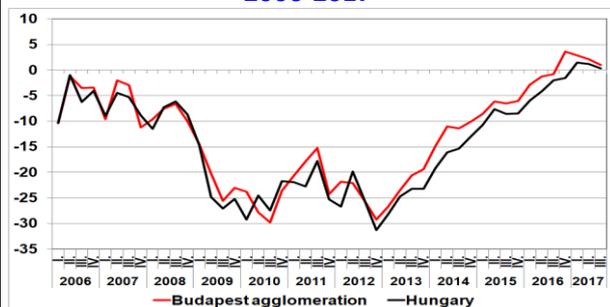


Property market outlook is over its peak

(GKI SURVEY RESULTS FOR JULY 2017)

In July, the **GKI** real estate indices for Budapest and Hungary stood at 1 and 0 points respectively. Both figures dropped slightly by 1 point, compared to the previous survey. Both indices went up 2 points, compared to the survey made one year earlier. The property market outlook improved only in the office space market, from the previous quarter. On the other hand, no significant change occurred in the other three segments. Generally, the property market outlook is slightly over its peak but it is still on the sunny side.

GKI real estate indices for Budapest and Hungary 2006-2017



Source: GKI surveys

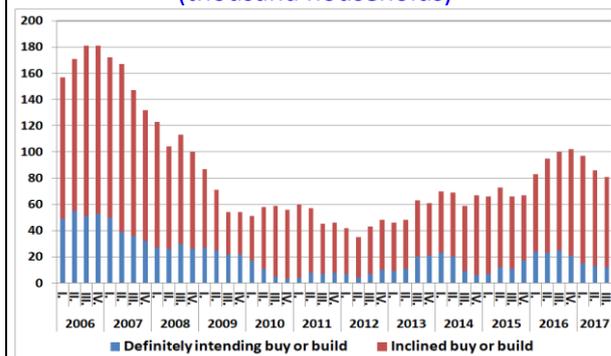
GKI has been conducting quarterly surveys to assess plans, intentions and prospects of real estate companies (developers, agents, consultants and operators) and households concerning the real estate market. Respondents of this survey included 110 real estate firms and 1,073 construction companies. The household sample of 1,000 persons was representative with respect to sex, age, residence and education level. The Budapest and the Hungarian real estate market indices synthesize **expectations for the coming 12 months** on the selected market segments of residential, office, retail and storage space markets thus providing an overall view on the prospects of the entire real estate sector.

Home market: Breakthrough dynamism in rural areas

The **home market indices** of Budapest and Hungary of the present survey, which reflect expectations of households and property agencies, moved in opposite directions, compared to their level in April. The Budapest index went up 3 points and the national index dropped 1 point. Comparing to one year earlier, the Budapest index decreased 3 points and the national one fell 7 points. The national home market index **hit a low over the last seven quarters**. Responding companies saw an improving outlook for the coming 12 months in the Budapest region and in

West Hungary and a worsening outlook in East Hungary. In Budapest, an improvement was experienced in almost all areas. In East Hungary, only concrete block homes did not suffer from a worsening outlook. In West Hungary, only family homes faced an improving outlook.

Intended home purchase or construction in the coming year, 2006-2017
(thousand households)



Source: GKI surveys

Expectations of household on their future home purchases and constructions have again worsened in July, as they did in January and April. Compared to the previous quarter, there was a drop both among those who were certain about their intended home purchase or construction and also among those who were uncertain about their plans. These expectations dropped to a **7-month low**. The outlook on home renewals and modernisation has also decreased a bit, compared to a quarter earlier. Concerning renewals, most respondents developed a wait and see attitude.

Expected movements in residential prices in Budapest for the next 12 months, July 2017

(Price rise over current prices in percentages)

Non fabricated apartments	3 (3,6)
Buda green belt	3 (5)
Other Buda	3 (5)
Pest downtown	4 (5)
Pesti green belt	3 (2)
Other Pest	2 (1)
Block of flats - North-Pest	2 (1)
Block of flats - South-Pest	1,5 (1)
Block of flats - Buda	2,5 (2)
Family house - Pest	3 (1,5)
Family house - Buda	1,5 (3)
Budapest total	2,5 (2,9)

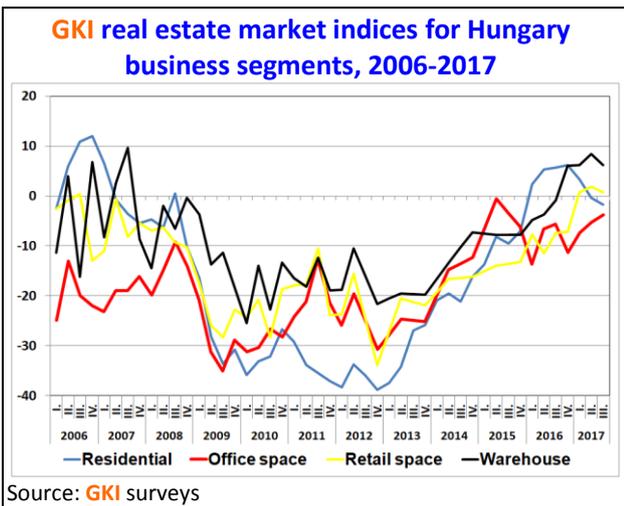
Results of the previous survey (April 2017) are shown in parentheses.
Source: GKI surveys

The **expected price rise of used homes** has not dropped much in Budapest compared to a quarter earlier. Among respondents, 47 per cent saw a

price rise in April and 38 per cent now. The share of those respondents, who saw stagnating prices, has gone up from 50 per cent to 59 per cent. The overall price rise in Budapest was again considered to be 2-3 per cent. The expected price rise practically remained about 2% both in West and East Hungary.

Construction site market: dynamic price rise

The outlook on construction sites was moving in a relatively narrow band on the sunny side since the first quarter of 2016. This has not changed during the July survey. The present outlook in essence is the same as it was six months ago. The **GKI** construction site index on Hungary went down 7 points, while it dropped 4 points in Budapest, compared to the previous survey. Construction site **prices** will likely to increase 6-7 per cent in the coming year, respondents said.



Source: GKI surveys

Office space market: maintained optimism

The office occupancy rate was close to 87 per cent in the Budapest region in the second quarter. This level in fact is equal to the one reached a quarter earlier. Compared to a year earlier, there is a 2 percentage point increase. In East Hungary, the occupancy rate of 83 per cent registered in April dropped to 78 per cent in July. In West Hungary, on the other hand, it went up from 80 per cent to 85 per cent. In July 2017, the **GKI office space index** has increased slightly over 1 point for Hungary and went up less than 1 point in Budapest (this is within the error margin), compared to one quarter earlier. The national index increased 2 points and the Budapest index went up 4 points, compared to one year earlier. That is, the optimism has been maintained or even slightly improved on the office space market. In the Budapest region, **rents will likely to go up 6**

per cent in the coming year, while outside of this region no increase expected.

Retail space market: business as usual

The total retail space area in Hungary is on a decreasing trend since 2012. Only four large shopping centres were opened over the last six years. The retail turnover, on the other hand, was dynamically expanding over recent years, and its outlook is also positive. Strong competition and recurring government plans on retail chain curbing regulatory interventions are the main forces on the market. The **retail market index** of the present survey has not really changed in the Budapest region although the national index dropped 1 point. Compared to one year earlier, the Budapest index increased 5 points and the national average went up 8 points. **Rents** will increase about 4 per cent in Budapest and will likely to stagnate in other areas.

Logistics facility market: negative correction

The **utilisation** of logistic facilities has not changed, compared to the previous quarter. The occupancy rate in the Budapest area is 84 per cent, down from 86 per cent a quarter earlier. In Western Hungary, the occupancy was 84 per cent, the same as in April. In Eastern Hungary, it dropped from 83 per cent to 82 per cent. One year earlier, these figures were 85 per cent, 86 per cent and 80 per cent respectively. The cautious increase in demand for rent has a positive effect on property development projects. In the coming 2-3 years, larger logistics projects are expected. The **GKI storage market indices** hit ten-year peaks in the previous quarter and present results indicate a negative correction. Compared to April, there was a 7-point drop in Budapest, and the national index went down nearly 2 points. Compared to one year earlier, the former went up 1 point and the latter increased 7 points. **Rents** will likely to increase about 3-4 per cent in the coming year.

Expected movements in property prices for the next 12 months, July 2017
(Price rise over current prices in percentages)

	Budapest	East Hungary	West Hungary	National average
Used homes	2.5 (2.9)	2.3 (2.2)	2 (2)	2.3 (2.4)
New homes	6 (6)	4 (7)	6 (5)	5 (6)
Office space	3 (4.5)	2 (3)	1 (3)	2 (3.5)
Retail space	4 (5)	1 (1)	1.5 (3)	2.2 (3)
Storage space	3 (2)	4 (3)	4 (3)	3.7 (2.7)
Construction sites	7 (4)	6 (8)	6 (3)	6.3 (5)

Results of the previous survey (April 2017) are shown in parentheses.
Source: GKI surveys