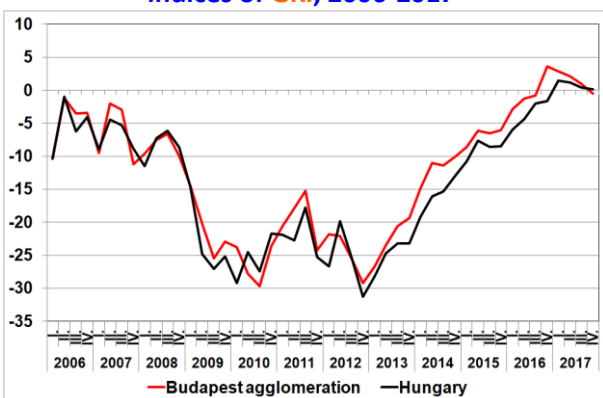


## Stable property market outlook with a price bubble about to burst

(GKI SURVEY RESULTS FOR OCTOBER 2017)

The **GKI real estate indices for Budapest and Hungary stood at -1 and 0 points in October 2017, respectively. Compared to the previous quarter, the index in the capital has dropped by 2 points but the index for the whole country has not changed. The Budapest index has decreased by 4 points over a year and the country index has increased by 2 points. The peak of the property market outlook is over for about a year but the present outlook is still positive.**

The Budapest and Hungarian real estate market indices of GKI, 2006-2017



Source: GKI surveys

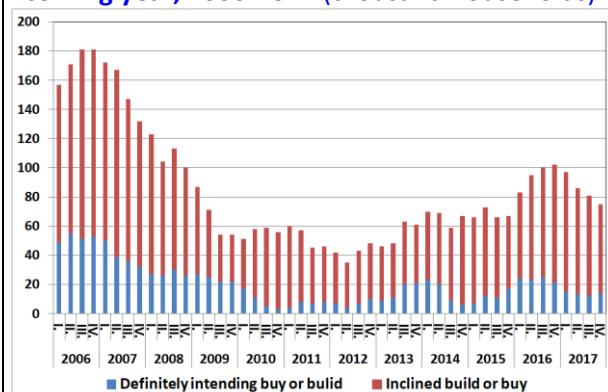
GKI has been conducting quarterly surveys to assess plans, intentions and prospects of real estate companies (developers, agents, consultants and operators) and households concerning the real estate market. Respondents of this survey included 110 real estate firms and 1,073 construction companies. The household sample of 1,000 persons was representative with respect to sex, age, place of 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: price rise continues in popular areas

Although the turnover of the property market did not increase this year yet (in fact dropped slightly so far compared to last year) but remained high in popular areas, resulting in continuous price rises there. A home in a good location is still a very attractive target of investments because in an era of low interest rates it is hard to find feasible financial investment opportunities with relatively

low risk. The home market indices of Budapest and Hungary found by the present survey measuring expectations of households and property agencies, dropped by nearly 2 points in the capital and decreased a point for Hungary. Compared to a year earlier, the Budapest index decreased by 7 points and the country index went down by 9 points. Among **property companies** in the Budapest region and Western Hungary the 12-month outlook worsened slightly, compared to the previous quarter. On the other hand, a slight improvement occurred in Eastern Hungary.

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



Source: GKI surveys

**Expectations of households on their future home purchases and constructions** have not really changed from the previous quarter. Compared to a quarter earlier, among those who were certain about their planned home purchase or construction the increase was 16 percentage points but among those who were uncertain about their plans there was a 12 percentage point drop. This resulted in a slight decrease in the overall index. The **outlook on home renewals and modernisation** has also decreased a bit, compared to a quarter earlier.

The expected price rise of **used homes** has increased in Budapest from 2.4 per cent to 4.3 percent from the previous quarter. This figure reached even 6-8 per cent concerning popular areas. In Eastern Hungary the expected price rise is below 1 per cent and it is 2.5 per cent in Western Hungary.

**New home** prices are seen to grow 4-7 per cent over the coming 12 months.

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

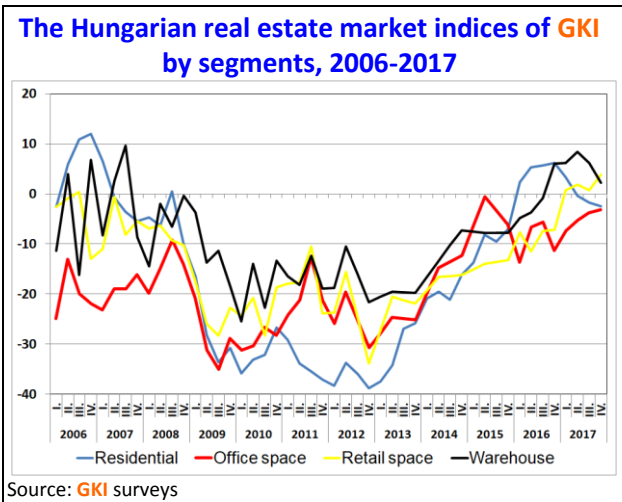
(Price rise over current prices in percentages)

Non concrete panel apartments	
Buda green belt	8 (3)
Other Buda	6 (3)
Pest downtown	5 (4)
Pest green belt	6 (3)
Other Pest	4 (2)
Concrete panel flats - North-Pest	2 (2)
Concrete panel flats - South-Pest	1.5 (1.5)
Concrete panel flats - Buda	4 (2.5)
Family houses - Pest	2 (3)
Family houses - Buda	4 (1.5)
<b>Budapest total</b>	<b>4.3 (2.5)</b>

The results of the previous (July 2017) survey are shown in parentheses. Source: surveys of GKI

**Construction site market: selling like hotcakes**

The outlook on construction sites was relatively stable over the last two years. There is little volatility since the first quarter of 2016. The present survey detected a slight improvement. Indices for Budapest and Hungary both went up 6 points. Construction site prices will expectedly go up 5-10 per cent in the coming 12 months, the most rapidly in the Budapest agglomeration area.



Source: GKI surveys

**Office space market: uncertainty grows in Budapest**

The demand for office space in Budapest is growing. The area of finished office projects increased much in 2016 and 2017 thus supply is also on the rise. As a result the office occupancy rate in fact stagnates. In the Budapest region the occupancy rate changed from 87 to 86 per cent from the previous quarter. In Eastern Hungary the rate went up from 78 per cent in July to 80 per cent in October, while the rate was kept at 85 per cent in Western Hungary. The Budapest office space index of GKI has fallen 6 points but the

national figure dropped only within the error margin (less than 1 per cent) from the previous quarter. Compared to one year earlier, there was a 3-point drop in Budapest but an 8-point increase in the whole country. Concerning office rents the expected increase might hit 5 per cent in Budapest and West Hungary in the coming year but outside the capital usually stagnation believers form a majority.

**Retail space market: improving outlook**

There is a clear improvement in the outlook of the retail space market: both the Budapest and the overall Hungary index went up 3 points. Compared to a year earlier, the index in the capital went up 1 point and there was a 11-point improvement in Hungary. Rents will tend to increase only in Budapest and its surroundings reaching 4-5 per cent.

**Logistics facility market: negative correction continues**

The utilisation of logistic facilities has not changed, compared to the previous quarter. The occupancy rate in the Budapest area went up 84 to 85 per cent, but dropped from 84 to 83 per cent in Western Hungary and went down from 82 to 80 per cent in Eastern Hungary. In October 2017, the storage facility index reflected slightly declining optimism. Compared to the previous survey, the index dropped 2 points in Budapest and lost 4 points in Hungary. From one year earlier, the index in the capital decreased 7 points and the nationwide index fell 4 points. Most of the respondents in the countryside forecast stagnating sales prices but an increase is expected in Budapest and its agglomeration in the coming 12 months. There is a similar situation for rent fees: significant increase of about 8 per cent is only seen in Budapest and nearby areas.

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

	Budapest	East Hungary	West Hungary	National average
Used homes	4.3 (2.5)	0.7 (2.3)	2.5 (2)	2.5 (2.3)
New homes	4 (6)	5 (4)	7 (6)	5 (5)
Office space	6 (3)	2 (2)	5 (1)	5 (2)
Retail space	4 (4)	1 (1)	5 (1.5)	3.3 (2.2)
Storage space	7 (3)	0 (4)	2 (4)	3 (3.7)
Construction sites	10 (7)	5 (6)	7 (6)	7.3 (6.3)

The results of the previous (July 2017) survey are shown in parentheses. Source: surveys of GKI