

# MARKET REPORT

*Investment properties*  
2017

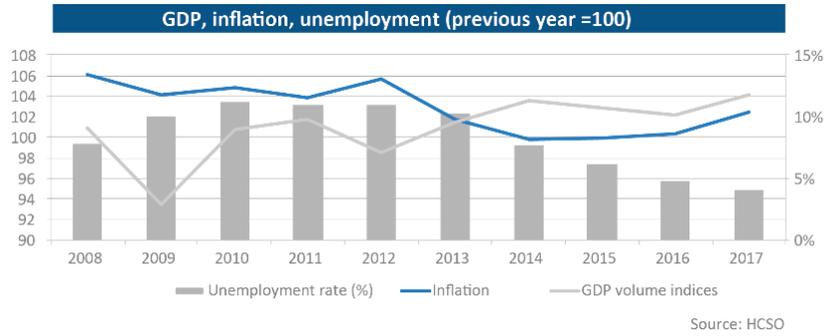
GDP ↑ Inflation ↑ Base rate ↓ Volume of investment ↑ Yields (offices) ↓ Industrial/Logistic real estates ↓ Commercial properties ↓

ECONOMIC OVERVIEW

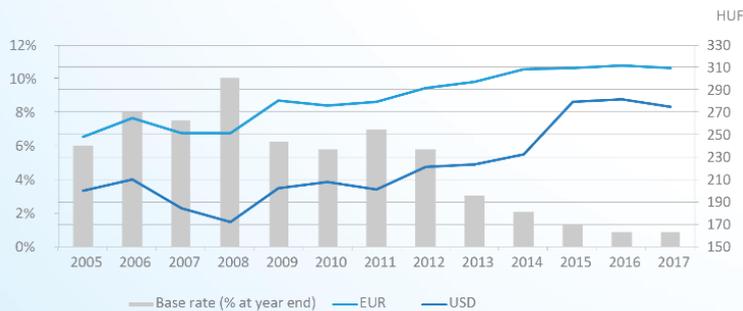
The Hungarian economy grew at a fast pace, by 4.2%, in 2017 (GDP growth at the middle of the year was 3.7%). The country's economic performance is middle ranking among central European countries, which is higher than the EU average (2.4%).

Investments showed growth (16.7%) again following the setback last year. Building industry's activity grew significantly, by 30%, in comparison with last year. Strengthening building activity resulted in higher prices: the price index of the building industry was 8.4% for buildings in 2017 (in 2016 this figure was 4.3%)

The volume of residential property buildings grew by one fifth compared to last year, in Budapest the number of completed flats grew more significantly, by 56%. The volume of flat handovers is expected to continue to increase in 2018, on the other hand it can be seen that the number of new developments decreased as a result of the approaching deadline of the new, reduced VAT rate for purchasing new flats, which is to be introduced in the near future.



Hungarian base rate, exchange rates (annual average rates in HUF)



Rate of unemployment dropped to 4.2% in 2017, which is one percentage lower than the figure in the previous year. Employment rate grew by 1.6% to 68.2% compared to last year. Shortage of labour can be seen in more fields (e.g.: construction industry, production industries), in addition, the rate of unemployment shows significant differences regionally. Base rate has not changed since the middle of 2016 (0.9%).

The expansion of retail trade turnover was similar to last year (4.9%), the growing trend is expected to continue in 2018 due to the increase of net income. Consumer prices grew by 2.4% in 2017.

Rate of unemployment dropped to 4.2% in 2017, which is one

CEE Investment volumes (billion euro)



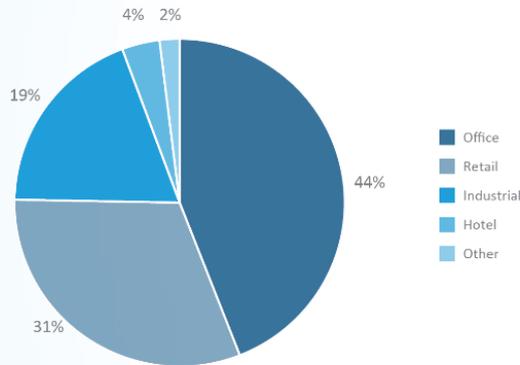
TRANSACTIONS

The total value of domestic commercial property investments increased again compared to last year, the tendency of growth could be observed in the whole CEE region. Deals of over 1.75 billion euro were closed in

2017. The majority of the deals were made for office buildings (considering numbers and volume as well), in addition, the market share of retail properties grew significantly in 2017 (considering their

number and total value as well). There is a big demand for office buildings with value increasing potential, furthermore premium office properties are still sought after.

### Investment volume by sector 2017

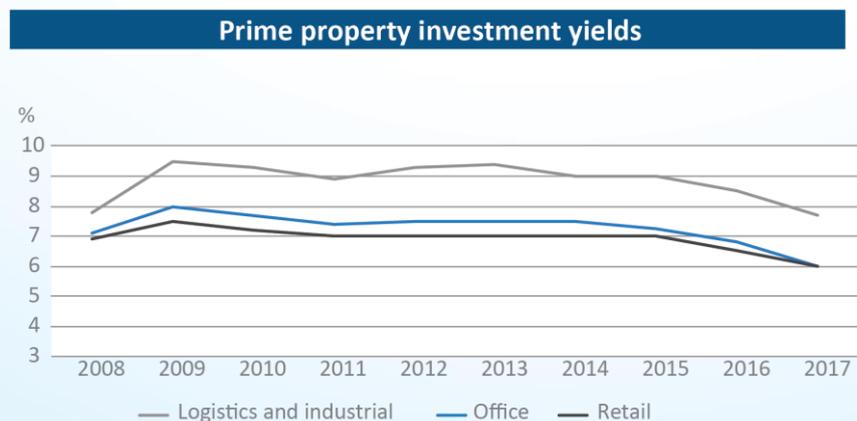


New investors appeared in the market in 2017. South-African investment company (NEPI Rockcastle), who were new players in the Hungarian market, closed the biggest value investment deal in 2017 by purchasing Arena Plaza in the value of 275 million EUR. The purchasing power of domestic property funds did not fall back, roughly 700 million euro was spent on properties with investment purposes in 2017. The average value of deals grew compared to last year. There were 14 deals exceeding the value of 50 million euro, out of which there were only three portfolio sales.

Demand for investment plots and other investment properties is still high, although in this segment it can be felt that the purchasing dynamics of flat constructors has decreased. The biggest demand for office development properties can be seen in the vicinity of Váci Street office area, where more than 150 thousand square metres of offices are being built. Purchasing power is also active in the south-Buda and south-Pest submarkets.

### YIELDS

Yields continued to decrease in the market of investment properties in 2017. The typical rate of return for modern offices was between 6.5-7% at the end of the year, while in case of some premium properties the yield was under 6%. A yield of 7.7-8% could be measured in the market of logistics properties. The rate of return for retail properties decreased as well, it was around 6% at the end of the year. The low interest rate and the big demand from investors keep the yield rates under pressure, which are approaching the historical low level of under 6% measured before the economic crisis.



## FORECAST

A number of new office buildings are expected to be handed over in 2018, in addition, investors' activity has taken up in the retail property market (Etele Plaza, ECE Aquincum). We expect demand to be strong in 2018 as a result of the favourable financing environment and abundant liquid assets. Yields will probably remain under pressure as a result of the strong demand even in case of dynamic supply expansion, on the other hand there are few suitable products on the market, the owners, in many cases, decide to keep their projects. We expect the annual investment volume to grow. in 2018.

## CONTACT:

Eston International Zrt.  
1024 Budapest, Lövház u. 39.  
Tel.: (+36 1) 8771000  
[info@eston.hu](mailto:info@eston.hu) [www.eston.hu](http://www.eston.hu)