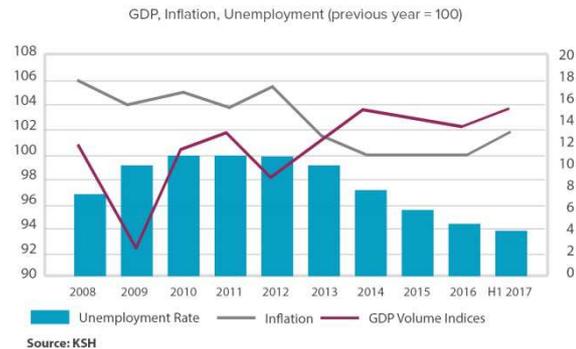


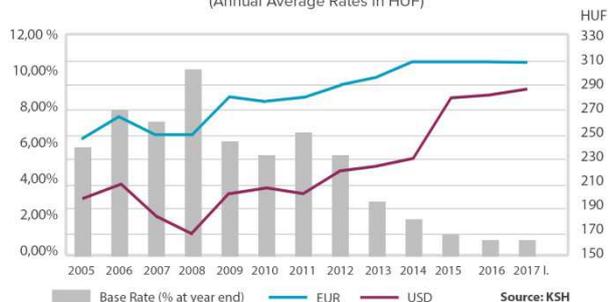
ECONOMIC OVERVIEW

Stable growth

Hungarian economy produced a strong growth of 3.7% in the first half of 2017 compared to last year (when the growth was at 1.7% in the same period). The volume of investments grew significantly compared to the low base rate (by 34%); growth could be observed in every area of the economy, investments in the construction industry grew by 49%. Industrial output grew by 5.6% in comparison with the January-June period last year, whereas construction industry grew by an even bigger (27%) rate. Construction of residential properties increased by 46% in the first six months (compared to last year). The number of building permits and simple notifications has increased by 40% in Hungary, and it has doubled in Budapest. As a result of the easing of building permits and the state subsidies (CSOK – state subsidy provided for families, reduced VAT) provided for residential properties the strong increase in building residential properties is likely to continue in the following year. Costs of constructions showed continuous increase in the examined period, prices increased by 8% in the second quarter in comparison with the same quarter last year.



Hungarian Base Rate, Exchange Rates (Annual Average Rates in HUF)



Retail trade continued to expand: the rate of growth was 3.9% in the January-June period compared to the previous year (in 2016 it was 5.3%). Consumer prices grew by 2.3% in the first six months compared to last year, while the rate of annual growth was 1.9%. The biggest rate of inflation could be seen in case of alcoholic drinks and tobacco products.

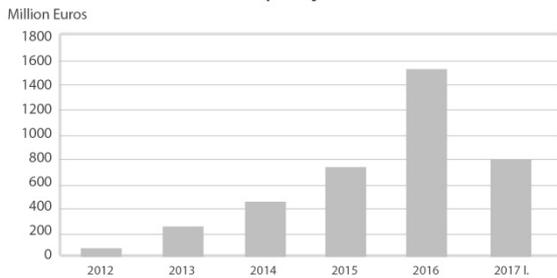
Unemployment rate dropped below 5% (4.3), in addition employment rate increased to 68.1%. There is a big difference regionally in the unemployment rate, there is a shortage of labour at the more significant industrial areas. The National Bank has not modified the base rate since the middle of 2016, it stands at 0.9% at present.

TRANSACTIONS

Further strengthening demand

In the first half of 2017 investors' activity continued to strengthen in the domestic commercial property market. The total price of property sold reached 800 million euro. Total investment volume might double by the end of the year, therefore the high level of investment seen in last year can be maintained. The most sought after products are still the high quality office buildings, which are often sold before handover (in forward purchase construction). The content of demand has changed though compared to that of previous years: the proportion of retail and industrial/ logistics properties has grown visibly within the transactions.

Prime Property Investments



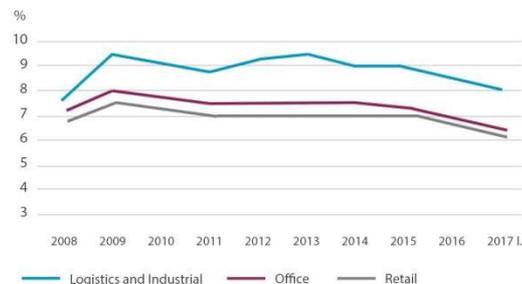
Domestic real estate funds continue to buy high quality office buildings (e.g.: Krisztina Palace – Erste Real Estate Fund, Corvin Skypark, Váci Greens B – OTP Real Estate Fund), furthermore they invested in logistics and retail properties as well (Dél Pest Business Park – Diófa Fund Manager, Sziget Center Tököl – OTP Real Estate Fund). Hungarian private investors typically look for income generating real estate, usually at a price of 2-10 million Euro. International investors show an interest in the Hungarian market; an addition to the American and European investors, who are already present in the market, investors from distant regions can be expected to appear (e.g.: from South Africa).

The most significant investment transactions include the sales of Váci Greens A and B office buildings, Aerozone logistics park and Sofitel Budapest hotel. The largest deal was signed by CPI and CBRE Global Investors in the first half of the year: Campona and Polus Center shopping centres, furthermore two Interspar stores in the countryside and a building on Andrásy Street were sold as part of a retail trade portfolio, comprising 11 properties in four countries. The total value of the deal was more than 650 million Euro.

According to market information end buyers will keep up their positive purchasing mood, which is also strengthened by the favourable loan options. Companies which buy for their own purposes are typically medium sized Hungarian companies setting their search criteria for properties between 2-6 thousand square metres, and usually are not deterred by bigger renovation works.

International investors are open to buy secondary properties with value add potential; as a result yield decrease can be seen in this submarket as well.

Prime Property Investment Yields



As a result of the strengthening property developing activity the buying and selling of land properties that are suitable for building offices and residential properties has intensified. The price level of investment land properties is approaching the level of 2007-2008. The biggest demand for office development lots can be observed in the region of Váci street, where offices of more than 160 thousand square metre are being built. Buyers' activity is strong in the south Buda and the south Pest submarkets as well. ESTON, which is a market leader in the development lot market, sold 51 thousand square metres of investment area in the first half of the year. Properties of 170 thousand square metres can be realised on this area.

YIELDS

Slight decrease to continue

The yield of investment properties decreased further in the first half of the year. In case of modern, premium offices the typical rate of return is between 6.7-7%, on the other hand in case of certain premium properties the rate of return is below 6%. In the market of logistics properties a yield rate of 7.8-8% can be expected. The rate of return for retail properties decreased too, it was around 6% in the middle of the year. The low base rate and the big demand from the investors' part result in lower yield rates, which are approaching the historic low point measured before the crisis.

FORECAST***Further expansion in supply can be expected***

As a result of the intensive development activity the demand for investment properties is still strong. This is going to remain the same in all market segments. The volume of office handovers will not increase remarkably in 2017 in comparison with last year; however, by 2018 a big scale stock expansion can be expected; at the same time the growth of annual investment volume is foreseen as well. Although the supply is increasing dynamically as a result of the strong demand, yields continue to be low. According to forecasts yields will reach a record low level in the next twelve months.

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