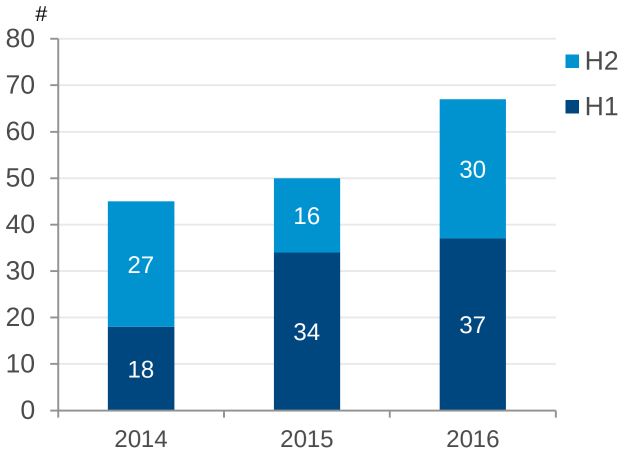
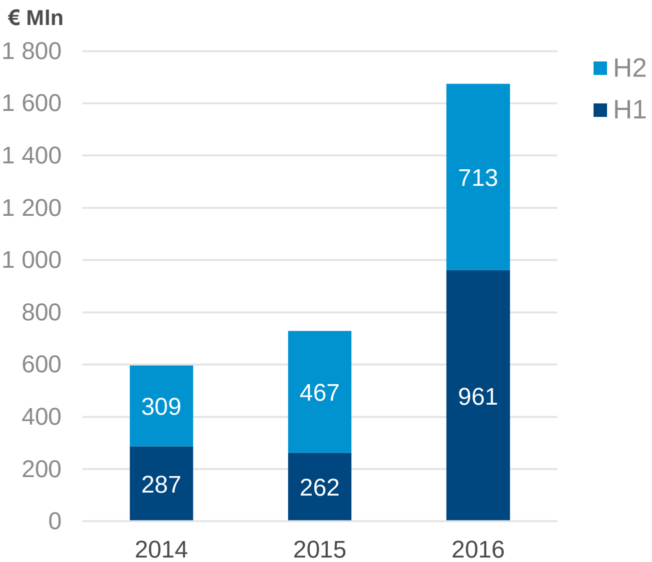
## NUMBER OF TRANSACTION DEALS IN 2014 – 2016



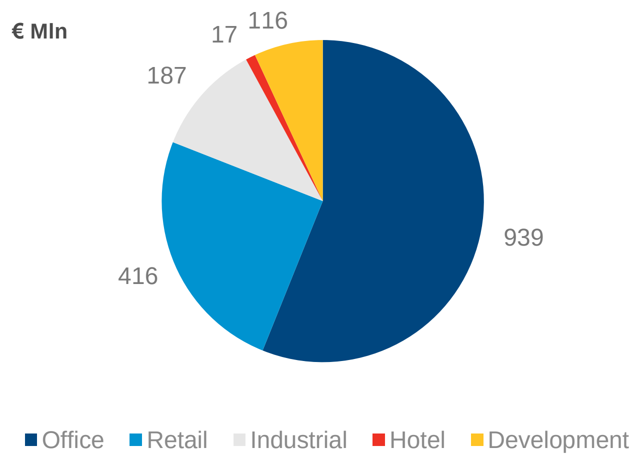

Source: Colliers International

## INVESTMENT VOLUME IN 2014 – 2016




Source: Colliers International

## SHARE OF SECTOR BY VOLUME IN 2016




Source: Colliers International

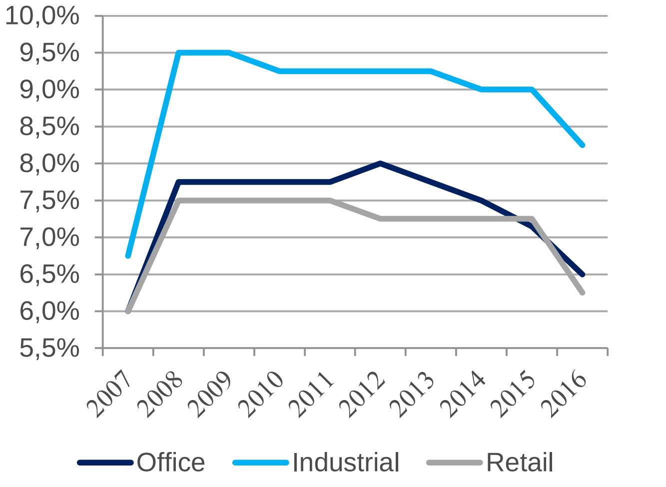
## Deal volume & trends

- The sound investment climate, robust fundamentals and strong total return expectations in all asset classes generated a major push in investment activity in Hungary reaching an annual volume of EUR 1.7 bn in 2016, i.e. 133% up from the previous year.
- The volume of investment transactions in the previous year was the second highest ever registered since the existence of modern capital markets in Hungary.
- The deal volume during the second half of the year was partly offset by more favorable tax conditions, decreasing corporate tax rate to 9%, entering into force in 2017 that pushed some larger deals into Q1 2017. Allowing these deals to be accounted for in 2016, the level of investment activity could have met the level of the record year of 2007 at 1.9 bn.
- Hungary registered the highest growth in transactions within the entire CEE region and the sharpest capital value appreciation.
- The most popular type of assets were offices with share of 56%, followed by retail at 25% and industrial deals accounted for 11% of the overall volume. The distribution is similar to those during the previous year, and expected to remain fairly constant in 2017 with the slight positive increase in the retail segment.

## Investors

- Hungarian investors still remained dominant in 2016 with a share in excess of 37% of the total activity by volume which was a small drop compared to the previous year.
- Among the domestic purchasers, the most active were the three large open-ended real estate funds: Erste Real Estate Fund, Diófa Fund Management and OTP Real Estate Investment Fund. Colliers International expects all of them to remain a dominant force in the coming year.
- The country's attractiveness was reinforced by its sovereign debt's upgrade to investment grade by all the three major credit rating agencies (S&P, Moody's, Fitch) in 2016 allowing a larger scale of international investors with strict investment policy to target Hungarian investments. During the course of 2016 a number of fresh international investors tapped into the local market adding a new pool of investors to the prevailing ones.
- New market entrants are foreseen to be US and UK private equity, South-African listed and private companies, German fund managers and various Austrian buyers. The biggest net buyers were German institutions acquiring assets for EUR 130 mln more than they exited from in the previous year.

## PRIME GROSS INITIAL YIELDS (2007-2016)




Source: Colliers International

## KEY TRANSACTIONS IN 2016

| Name of property | Asset type | Buyer | Seller | Size (sq m) |
|---|---|---|---|---|
| Nordic Light | Office | Erste | Skanska | 26,000 |
| Park Atrium | Office | Corpus Sireo | GLL | 25,450 |
| Immofinanz Portfolio | Logistics | Blackstone | Immo-finanz | 102,000 |
| Millenium Towers | Office | CA Immo | TriGranit | 70,400 |
| Váci Greens | Office | ZFP | Atenor | 18,500 |

Source: Colliers International

- Regional players such as Austrian, Czech and Slovak real estate investment funds also appeared showing a greater interest not only in the CEE region, but in Hungary especially.
- These new players are expected to increase their share in the upcoming years, thus may further reduce the share of the Hungarian investors from the total deal volume.

## Transactions and yield evolution

- The change of the market dynamics shows that despite the number of transactions only increased with (+34%) the investment volume has more than doubled. This suggests that the average size of the individual deals are the main catalyst of the increase, reaching EUR 25 million this year, while it was EUR 15 million last year.
- The financing of big ticket transactions was mainly feasible through syndicated loans during the previous years, while now banks are more willing to finance large transactions individually.
- Another interesting factor is the shortening of transaction periods. Currently, transactions are typically closed within 6 months while previously this lasted on average between 6 to 9 months and sometimes even 12 months.
- This pattern is in the interest of buyers, as the market conditions are rapidly improving and quick reactions can lead to significant competitive advantages.
- The market is increasingly characterized by strengthening position of the sellers. As a result a growing number of properties were sold through project companies, which is usually a more preferred structure by vendors.
- The increase in demand is also noticeable in the declining prime yields by 0.5-1.0% in each segment compared to last year.
- The typical prime office yield at the end of 2016 stood at 6.5%, while prime retail (shopping center) yields were at 6.25% and prime industrial/logistics properties at 8.25%.

## Outlook

- Due to the decreasing number of available high-quality products and evidenced rental growth, further compression in yields is expected during 2017 across all asset classes.
- 2017 is expected to remain as active as 2016 with a larger number of portfolio deals and value-add opportunities than in the previous year.
- In the office segment a higher share of forward sales is anticipated by Colliers International on the back of shortage of product and high pre-lease levels of ongoing developments.