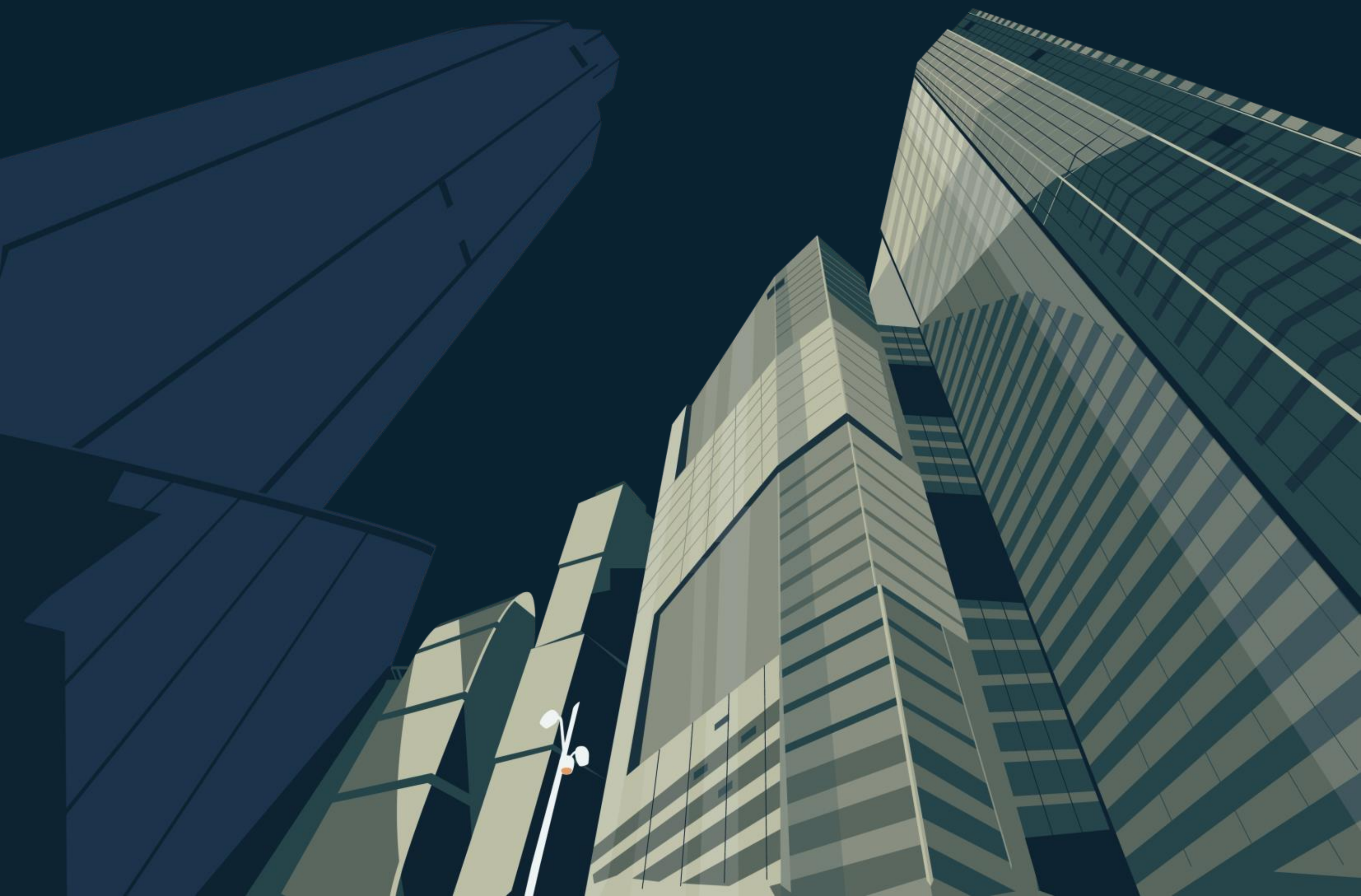
HUNGARY

INVESTMENT MARKET

2018 FULL YEAR



DEAL VOLUME & TRENDS

In 2018 the commercial real estate total investment volume reached EUR 1.764 million, only a modest (-3%) pullback in investment activity compared with 2017.

We observe overall a continuation or even strengthening investor interest across all asset classes; thus the key factor explaining the slightly lower volume in 2018 is mainly related to a paucity of opportunity in the market. We see this as the case especially in core products popular amongst investors.

Significant money inflow to the domestic property funds, new market entrants and favourable financing conditions are currently all pillars of the Hungarian commercial property investment success story.

We observe that larger individual and portfolio deals were the driver of the volume in 2018; Colliers registered deals with an average volume of EUR 39 million per transaction, higher than 2017's EUR 32 million.

As we predicted, Budapest experienced strong appreciation of capital values thanks to continuous yield compression and rental growth throughout 2018. Budapest's yield compression was more profound during the last two years in comparison to its main peers in the region, Prague and Warsaw.

Office deals represented 45% of the total volume with retail transactions tracking closely at 42%, while industrial's share was only 9%. We registered only one significant hotel transaction in Budapest in 2018.

Retail properties continued to gain even more significant share this year through various portfolio deals and the sale of two significant shopping malls, Mom Park and Mammut 1-2. The less liquid industrial and hotel markets were not as active as 2017.

FIGURE 1:
INVESTMENT VOLUME IN 2014-2018 (EUR MILLION)

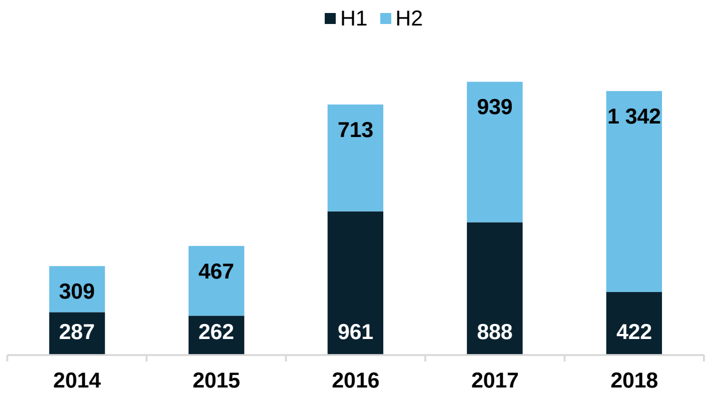
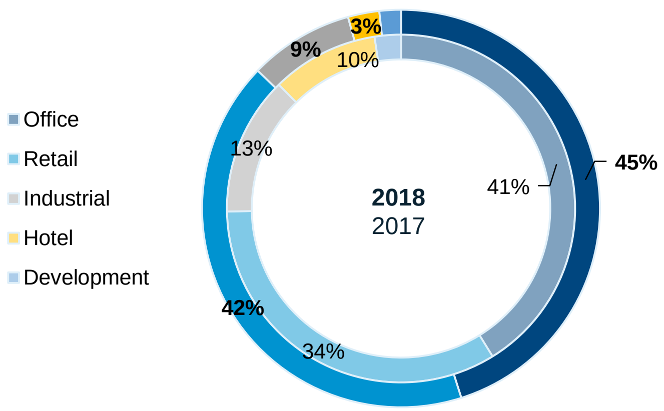


FIGURE 2:
SHARE OF SECTOR BY INVESTMENT VOLUME (2017-2018)



Sources: Figure 1: Colliers International | Figure 2: Colliers International

INVESTORS

Domestic investors, continuing a significant pattern, were again the most active purchasers in 2018. Their share in fact increased significantly this year representing more than half of total volume. Local investors accounted for 60% of the total deal volume, a notable rise from the 35-38% registered in 2016-2017.

A significant capital influx to dedicated Hungarian real estate mutual funds, mainly from retail investors, appears to be the one of the key reason behind the increasing activity of local players.

Amongst these large Hungarian funds, OTP's Prime Property Fund was the most active with the acquisition of Corvin offices and the Mom Park shopping centre with its office component. Erste Fund also closed two significant deals, namely the Market Central Ferihegy strip mall with Quadrum offices and the Mill Park office building in Q3 2018. Appennin and Diófa Fund were also among the local investors active last year.

Looking at the more opportunistic/value-add local investors/developers, Indotek acquired three retail properties, while Wing also purchased a retail portfolio consisting of three properties.

German and South African investors represented the largest international purchasing market share, with 6.2% and 14.4% respectively during the year. The South Africans were active in much of the rest of CEE in 2016-17, so their expansion in Hungary was not a surprise. On the sell side, US vendors were the most active accounting for almost half of the total investment volume alone.

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TRANSACTIONS AND YIELD EVOLUTION

Individual/portfolio office and large shopping centre transactions were the key catalyst of the investment activity in 2018. Fewer, but larger individual and portfolio deals were closed when comparing to the previous two years.

Colliers tracked 10 transactions in 2018 beyond the EUR 50 million ticket size. The present strong buyer interest appears to be placing vendors in the ascendancy, especially concerning prime investment products. As a result we registered a 25 basis point prime yield compression in all Budapest segments, measuring versus 2017.

Banks remained open to finance quality real estate projects with even more favourable interest premiums compared to the previous year. We observe that this liquidity provided an impetus for investors and developers alike. And we see more of the same as the most likely scenario, certainly for most of 2019.

Evidence of the market's dynamism is that deals are typically closed within 6 months presently, while in the last few years that average was between 6 to 9 months and sometimes stretching to even 12 months.

The lack of quality opportunities for sale means Budapest prime yields are still under pressure, especially in the prime retail and office arenas, The typical prime office yield by the end of 2018 stood at 5.75%, prime retail (shopping centre) yields was also at 5.75%, while for top quality industrial/logistics properties the yield expectation was at 7.5%.

FIGURE 3: P
RIME GROSS INITIAL YIELDS (2007-2018)

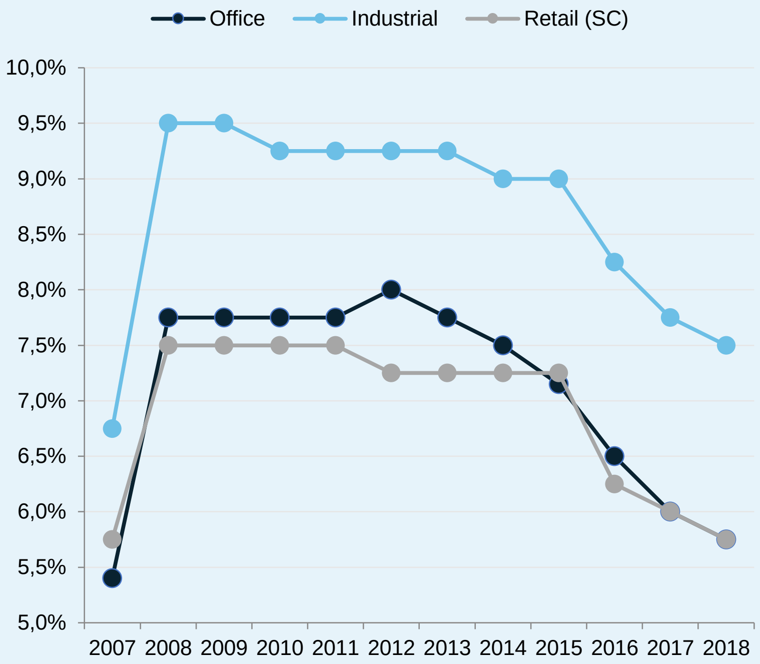

TABLE 1:
KEY TRANSACTIONS IN 2018

Name of property	Asset type	Buyer	Seller	Size (sq m)
Corvin Offices	Office	OTP Fund	AIG	80,000
Prologis Portfolio	Industrial	Maple Tree	Prologis	76,000
Mamut 1+2	Retail	NEPI Rockcastle	Lone Star	61,300
Mom Park	Retail	OTP Fund	Morgan Stanley/CC Real/Wing	48,000
Market Central Ferihegy	Retail	Erste Fund	AIG	44,000
Mill Park	Office	Erste Fund	Skanska	36,000
Premier Outlet Center	Retail	DWS	Lone Star	23,500
Alkotás Point	Office	Diófa Fund	Heitman	23,560

Sources: Figure 3: Colliers International | Table 1: Colliers International

OUTLOOK

The recently positive growth period of the Hungarian economy is likely to continue, though at a more moderate pace in 2019. As a consequence, we expect that that the financing environment will also remain favourable, thus fostering investment activity.

Overall, we believe that investor appetite will remain strong throughout 2019. As a result we foresee further slight compression in yields but mostly in the core segment.

Overall volumes might well fall, again, slightly below the level realized in the last three years, due to less available products for sale. We anticipate that some significant office portfolio/individual deal will be realized in 2019 that may set a new yield benchmark for the market.

Due to the product shortage in the office sector, we anticipate a number of forward-sale deals in 2019, with high pre-lease rates. Additionally, we expect more attention from investors towards value-add opportunities. We believe that the products in these segments are still reasonably priced and a notable capital appreciation can be realized through appropriate asset management.

We expect more deals to be closed in the hotel segment in 2019, due to the strong uplift in the tourism industry in the recent years, and the consequent hotel development boom.

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