MARKET REPORT

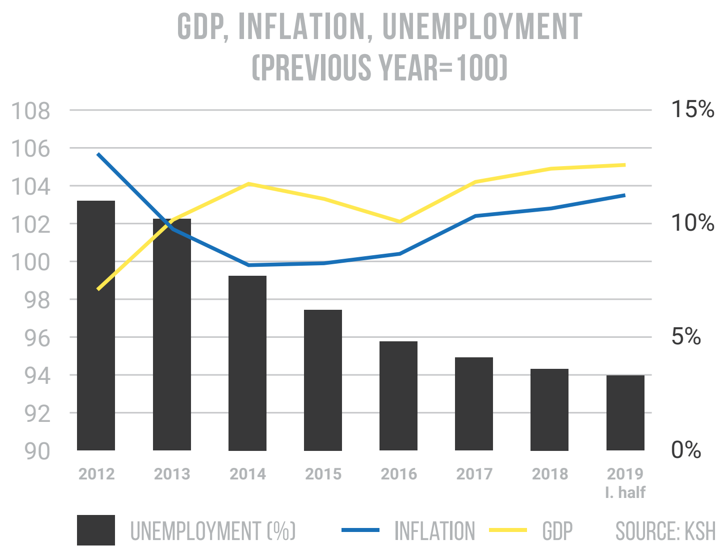
Investment 2019 H1

Economic overview

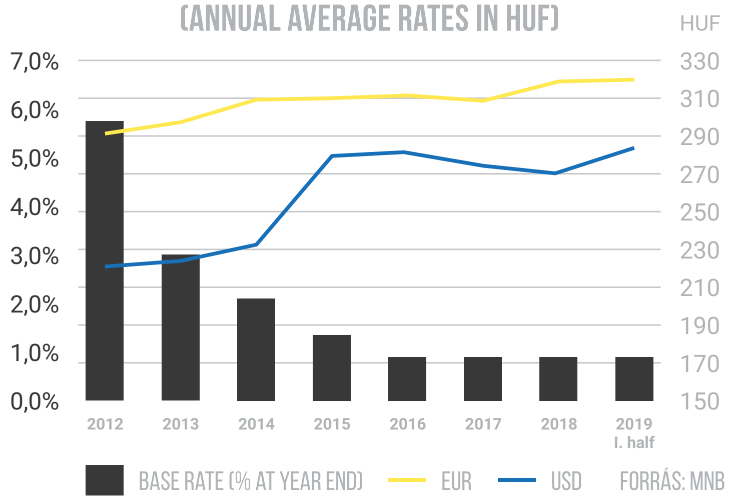
The construction industry's output contributed significantly to domestic economic growth (5.1% in the first half of 2019). During the January-June period, the outputs of the following industries strengthened: construction (35.1%); tourism (9.3%, which represents the income of commercial hotels); retail trade (5.7%); and other industries (5.4%).

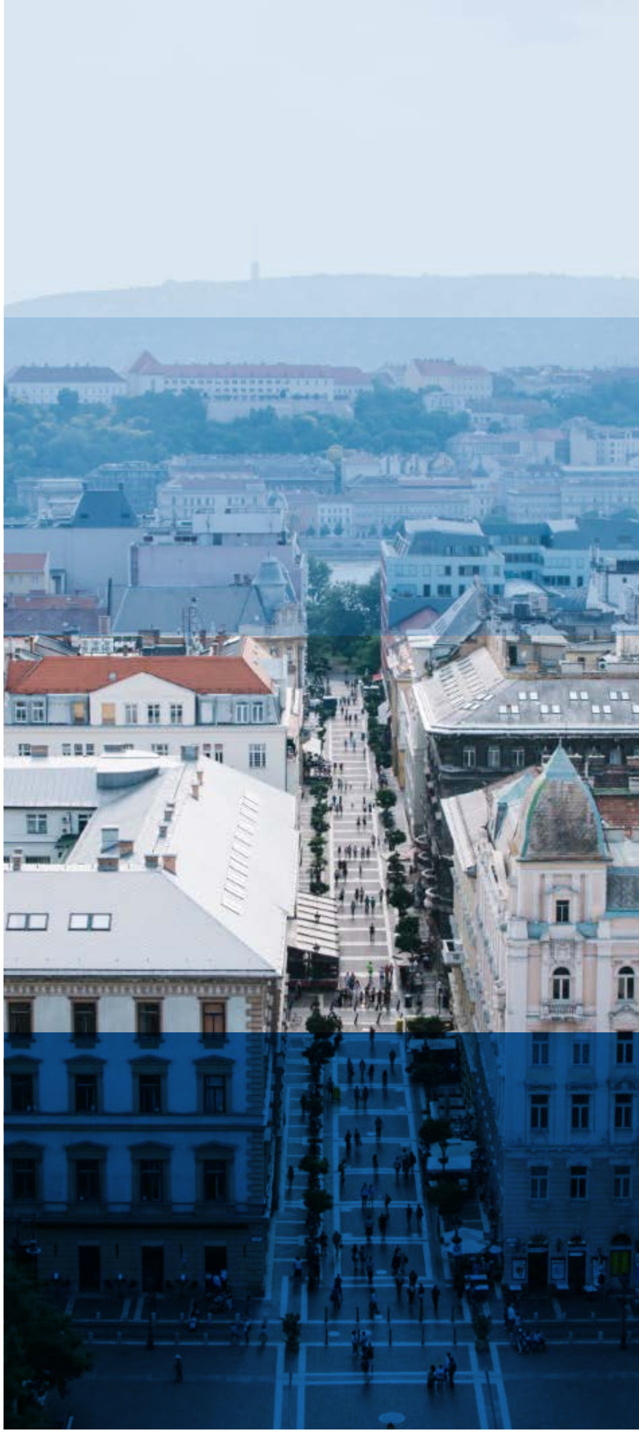
Inflation stood at 3.5% during the first half of 2019, whereas deflation was observed with durable consumer goods. In the second quarter of 2019, construction industry prices for building construction were 11.8% higher than in previous years, which resulted in higher fees for tenants.

Labour market indicators continued to improve; unemployment rate decreased to 3.3%, while employment rate rose to 70%. In the January-June period, real wages increased by 6.9%, with the base rate remaining at 0.9% throughout the middle of the year.



BASE RATE, EXCHAGE RATE
(ANNUAL AVERAGE RATES IN HUF)





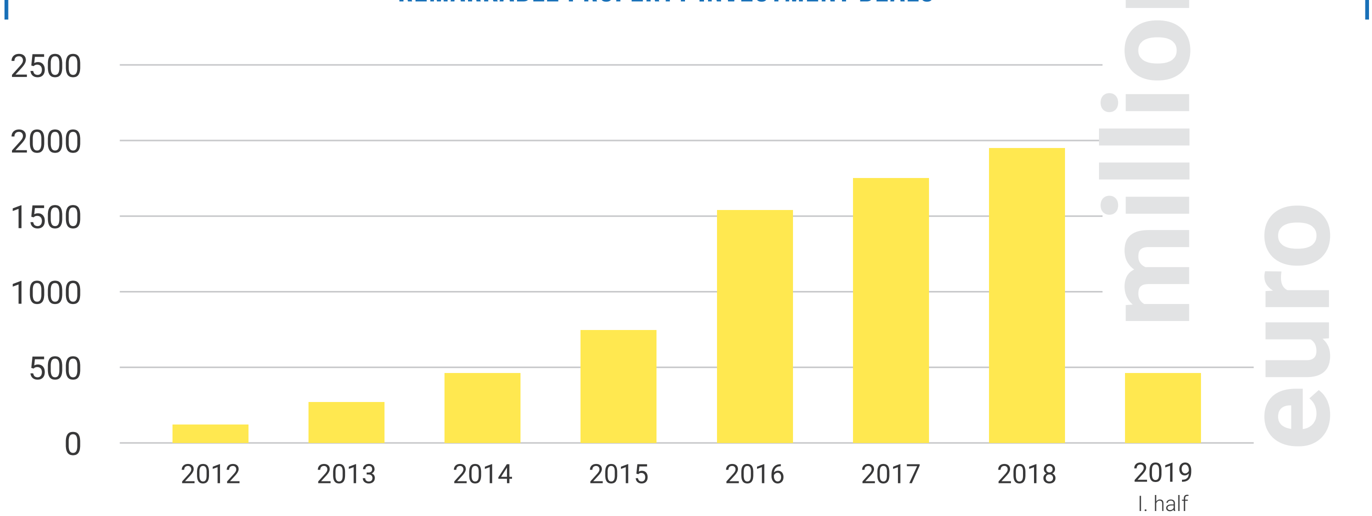
Transactions

The volume of closed property investment transactions in the first 6 months of 2019 was about 460 million Euro (40% higher than the volume for the first 6 months of 2018. There is still a strong demand for high-quality offices—two-thirds of the investments were realised in them. There is a big demand for (but a small supply of) properly leased logistics offices. Additionally, there is a bigger demand for hotels (especially those located downtown, in classical buildings) and retail properties.

The sale of Hotel Gellért (Indotek being the purchaser), the takeover of the former Telekom buildings (WING being the purchaser) and the sale of White House office building (Warburg HIH being the purchaser) are 3 of the major transactions closed in the first half of 2019.

Domestic investors' activity remained strong in the first 6 months of 2019. The super bond introduced by the state (MÁP+, with 4.95% maximum yield at expiry) will probably affect domestic property funds' activities, but the extent of liquidity did not decrease until the middle of the year.

REMARKABLE PROPERTY INVESTMENT DEALS



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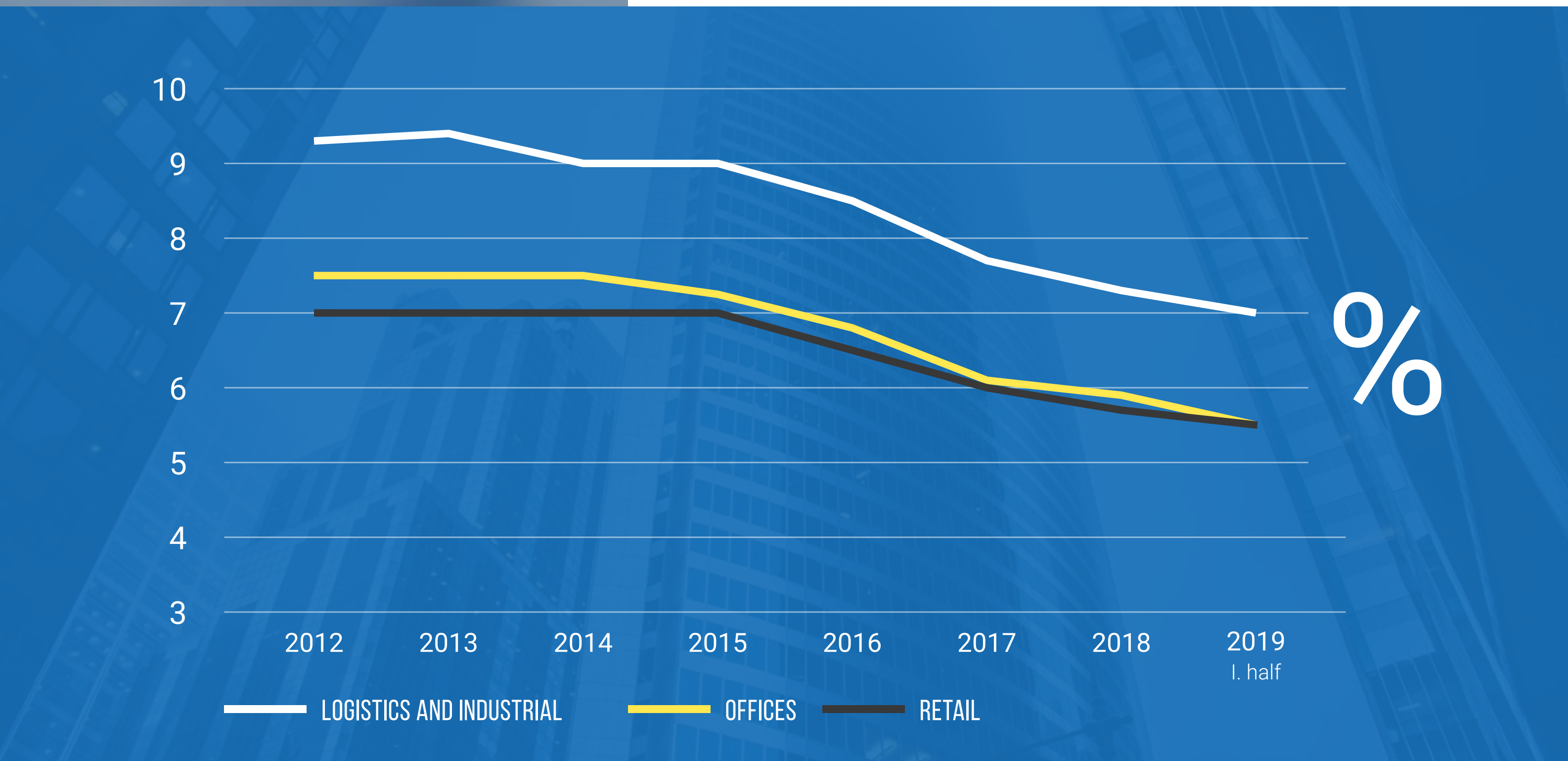
Yields

Yields continued to decrease at a slower pace but have not stopped at any of the submarkets. With respect to premium offices the rate of return was under 6% (specifically, 5.5%); for retail properties, it was 5.5%; and for industrial properties, it was 7% (though it should be noted that few transactions occur in this section).

PRIME PROPERTY INVESTMENT YIELDS



Forecast

We expect that demand will remain strong until the end of 2019, with further significant investment transactions being closed. The biggest decrease in yield can be expected in the office market. Narrowing demand can stop the growth of investment volume; therefore, the annual total transaction value is unlikely to reach or surpass that of 2018 (i.e. 2 billion Euro).

Developments appearing on the market and under implementation office, as well as retail properties, will continue to play an important role throughout the next 12 months. In addition, we can reasonably expect stronger activity from investors and developers in the hotel market within that timeframe.