


Hungarian Property Investment

YEAR END 2007


2007 was a record year in Hungary with close to EUR 2 billion invested in commercial properties.

The investment market size grew by 160% on 2006 which is the highest annual growth in the whole CEE region.

2007 AT A GLANCE

Investment Volume 

Yields 

Capital Value 

CONTACTS

Managing Director:

Adrienne Konthur
adrienne.konthur@cbre.com

Deputy Managing Director:

Margaréta Mészáros
margareta.meszaros@cbre.com

Head of Marketing & PR:

Orsolya Simon
orsolya.simon@cbre.com

Research Analyst:

Gábor Borbély
gabor.borbely@cbre.com

www.cbre.hu

Hungarian property investment market closed a record year in 2007 with turnover exceeding EUR 1,94 bln. Registered volume reached a historic high with a growth of 160% on 2006. Last year one in four transaction was a forward deal, and forward sales amounted to 54% of the total investment volume (30% in 2006). Besides increased market activity, growth in transacted volume was due to higher transparency as well.

Unlike in other core CEE countries, the Hungarian investment market remained focused on the capital city. Budapest had a share of 86% in total turnover. Cross-country retail portfolios had a share of 13%, while single asset transactions in secondary locations accounted for 1% only.

Investors' interest for office and retail remained stable; these two sectors accounted for 89% of transacted volume. In 2007, however, retail investment as a whole surpassed the transacted office volume for the first time. Secondary locations significantly contributed to this change in trend. While there wasn't any deal done in the office sector outside Budapest, 23% of retail investments were realised in regional locations – almost all of them in portfolio deals. Logistics investments had a share of 8% and mixed schemes gave the remaining 3%.

The liquidity of the investment market remained low: 75% of total investment volume in 2007 was still concentrated in assets traded first on the market. The office sector shows higher maturity with first sold assets falling below 60% of overall office investment volume. Growth in the Hungarian market is clearly driven more by new products than by increased liquidity. Lack of quality products therefore encouraged forward purchases.

The high proportion of first sold assets explains why developers kept their dominant share among vendors with 36%. Institutional investors and funds significantly increased their share in investment transactions. Together they were accountable for 49% and 62% as vendors and purchasers, respectively. In line with growing maturity and transparency, private equity buyers increased their level of activity on the Hungarian market. They contributed as purchasers 21% to the total investment volume in 2007 (as opposed to 1% only in 2006).

In the last two years UK investors were the most active on the Hungarian property market. They increased their share from 29% to 39% in 2007. German and Austrian investors are traditionally considered the most important buyers but they represented only 30% of the market in 2007. Hungarian property companies remained significant as vendors but the share of local purchasers remained below 1%.

Property Sector	Prime Yield (%)	Annual Volume (M EUR)	Average Deal (M EUR)
OFFICE BUDAPEST	5.75%	834	33
RETAIL BUDAPEST	5.75%	691	86
RETAIL REGIONAL	6.75%	213	
LOGISTICS	6.75%	151	19
OTHER	-	56	-

PRIME YIELD:

Prime yields are always net, initial yields. They refer to lowest yields theoretically achievable in particular markets.

TOP 5 INVESTMENT DEAL

Property	Purchaser	Property Sector	Size	Volume
Aréna Plaza Mall*	aAIM	Retail Budapest	65,000 sq m	380 M EUR
Corvin Atrium*	Klepierre	Retail Budapest	39,000 sq m	200 M EUR
Campona Shopping Mall	ING Real Estate	Retail Budapest	40,000 sq m	105 M EUR
Atrium Park (Váci út)*	ImmoEast	Office Budapest	35,000 sq m	100 M EUR
Park Atrium (Dózsa György út)	Accesion Fund SICAV (GLL)	Office Budapest	24,000 sq m	93 M EUR

* forward purchase

RETAIL MARKET

Retail investments amounted to EUR 691 mln and EUR 213 mln in Budapest and in secondary locations, respectively. This sector showed the strongest annual growth since this value is more than four times as big as it was in 2006. Not only was the single biggest transaction ever registered in retail, but four out of the five biggest deals were done in this sector last year.

Targeted assets were different in Budapest and in secondary locations. While in the capital city shopping centres were transacted, countryside deals focused on out-of-town retail schemes, mostly on strip-mall chains. As a new pattern on the market, investors appeared in secondary cities as buyers of retail warehousing portfolios and supermarket chains. Single asset transactions on the secondary market remained, however, insignificant.

Yield compression was stronger on secondary markets than in Budapest therefore deviation range has narrowed. Prime yield fell to 5.75% while secondary yields are at ca. 7%.

OFFICE MARKET

Office investments amounted to EUR 834 mln, all of them in Budapest. This volume is twice as much as it was in 2006. The five biggest deals were accountable for 48% of all office transaction volume -EUR 404 million. This signals significantly lower concentration than in 2006 when the five biggest deal summed up to 78% of all office investment volume.

Due to the lack of available products in CBD and Central Budapest, investors' activity was high in the outer submarkets. Non-Central and Periphery attracted 68% of all the volume. Investment in CBD experienced a drop, even with mixed-use projects included. The sale process of the biggest prime office building did not finish in 2007, and this one delay resulted in a very low transaction volume in the whole submarket.

Prime yield compressed further and reached 5.75%. Secondary yields remained stable at ca. 6.75% while forward premium decreased to 50-75 bp. Yields still varied widely asset by asset though.

INDUSTRIAL MARKET

Investment in logistics properties reached EUR 151 mln which is 42% up on 2006. This sector is the least focused on the capital: EUR 63 mln was transacted in locations outside of the Greater Budapest area or within the frameworks of cross-country portfolios.

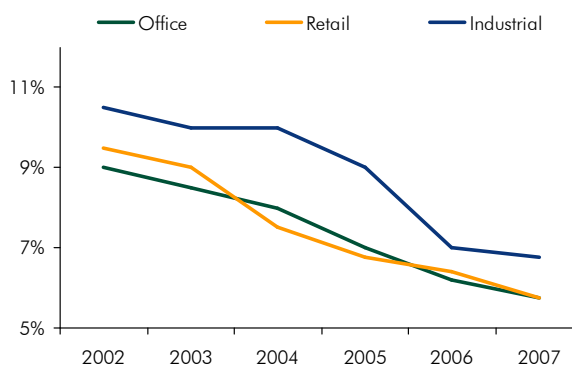
As the logistics property market is very much owner-occupier driven, the transpired investment transactions are mostly sale and lease back deals. In contrast to other core CEE countries, in Hungary this type of deals were popular with investors in the logistics market only.

Prime yield in Greater Budapest area reached 6.5% while secondary locations are priced at ca. 8%.

OUTLOOK

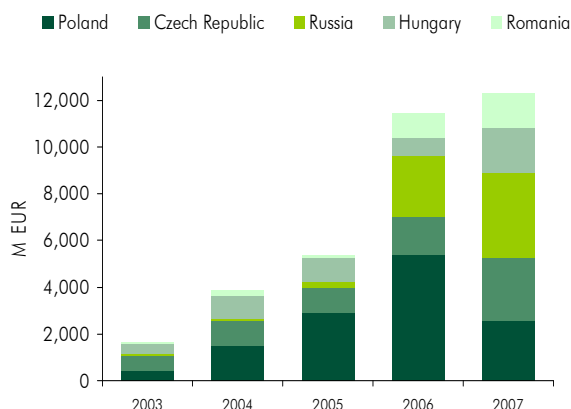
- Investment volume will remain stable, or even increase.
- Retail is likely to remain the most attractive property segment with increasing interest in secondary cross-country portfolios.
- Forward market is expected to be strong due to massive pipeline.
- Equity buyers are expected to increase their share further.

PRIME NET INITIAL YIELDS ON THE BUDAPEST PROPERTY MARKET



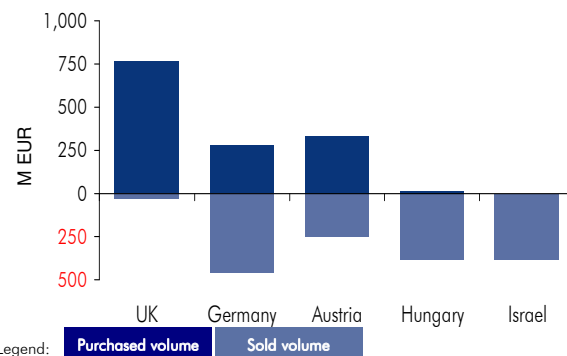
Source: CB Richard Ellis

BIGGEST INVESTMENT MARKETS IN CEE SINCE 2003



Source: CB Richard Ellis

HUNGARIAN INVESTMENT BY NATIONALITY IN 2007



Source: CB Richard Ellis