

Hungarian Property Investment

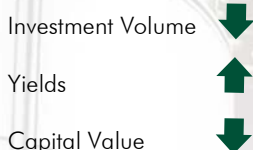
HALF YEAR 2008

2008 started with a sudden slowdown in investment turnover with half-year volume reaching a mere EUR 153 million.

Investment brokers, however, report high level of interest from vendors' and purchasers' sides, both. There is a clear re-pricing issue which prolongs negotiations to a significant extent.

Prime yields are difficult to determine in such an illiquid market but we clearly see an increase of at least 25 bp over the first half.

2008 H1 AT A GLANCE



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After the record volume in the previous year, the Hungarian property investment market witnessed a significant slow down in terms of investment turnover. The total volume invested into Hungary's real estate market amounted to EUR 153 million in the first half of 2008. Q1 volume reached EUR 113 million while Q2 added EUR 40 million only. In total, H1 2008 turnover was a mere 25% of the volume registered the first half last year. The sale of Bank Center was not closed in Q2 and so this significant volume did not transpire in H1 figure.

Half of the volume registered in H1 2008 was due to the second part of a nationwide retail portfolio deal which had started in 2007. Besides these retail transactions we registered only smaller office deals – the average deal size in this asset class went down to EUR 21 mln compared to the yearly average of EUR 33 mln in 2007.

The split between the property sectors was balanced; office deals amounted to 55% of the total turnover while retail had a share of 45%.

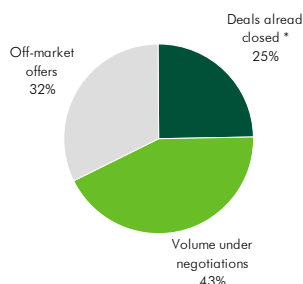
Despite the very low turnover in H1, we are confident to say that the property investment market has been very active in the last few months. Brokers report increasing interest, and we are aware of many negotiations which are due to be closed over the coming quarters.

Although the Hungarian financial system is not connected to the US subprime market, the local market is heavily affected by the consequences of the credit crunch. Compared to the same period last year, ECB base rate has gone up by 25bp only but lending margins have significantly increased. While in the previous years the regional premium for property financing in Hungary had been decreasing, financiers lately want to have this premium back. Also LTV ratio has gone back by 15-20% in Hungary - such as in most European countries.

The market is undoubtedly going through a re-pricing period which is mainly attributed to the increased level of risk perceived and to the less favourable margins. Owners on the other hand are reacting very slowly for this need of re-pricing which elongates the negotiations. Due to the more sophisticated pattern of the market, brokers' involvement has increased and so the transparency of the market has improved.

Although the pricing gap between the parties is a clear barrier of growing investment value, we see two fundamental reasons for investment turnover increasing in H2 – especially in last quarter of the year. Property deals before closure amount to a value of ca. EUR 470 million which is most likely to transpire in H2 figures. Big portfolio holders started to rationalize their portfolios given that their initial holding period of three to five years is due to expire and they consider executing their exit strategies.

INVESTMENT TURNOVER AND POTENTIAL PIPELINE IN JULY 2008



TOTAL: EUR 1.1 billion

* Bank Center assumed

PRIME YIELD:

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

Property Sector	OFFICE BUDAPEST	RETAIL BUDAPEST	RETAIL REGIONAL	LOGISTICS
Prime Yield in Q4 2007 (%)	5.75%	5.75%	6.75%	6.75%
Prime Yield in Q2 2008 (%)	6.00%	6.00%	6.75%	7.00%

Source: CB Richard Ellis

OFFICE INVESTMENT – POTENTIAL MARKET VALUE

CB Richard Ellis have made an estimation of the potential market value of the Budapest property market. Given that offices are the biggest and most mature asset class in the Hungarian property investment market, we limited our estimation to the speculatively built office stock in Budapest. Out of the EUR 5.7 billion invested into the Hungarian real estate market since 2002 some 60% was transacted with offices. The share of office investment relative to the total volume has been floating over the years but with the exception of 2007 offices have always been the biggest asset class based on turnover.

The office market has been growing rapidly in Budapest and the growth does not seem to have an end right now. While in 2002 the total office stock in Budapest reached 1.22 million sq m, currently there is 2 million sq m of office space on the market, and we expect the Budapest market to reach 2.5 million sq m within two years. The market growth is significant not only in size but in value as well. Moreover, the dynamics of market value growth has surpassed the growth of the stock in size. We estimate that the total Budapest office stock might have been worth ca. EUR 2 billion in 2002, currently is worth of over EUR 5 billion. With adding the development pipeline until the end 2009, the total value is likely to reach EUR 6.6 billion. In relative terms, the stock will have doubled by end 2009 compared to early 2002 while the market value will have more than tripled over the same period of time.

The difference between the dynamics of growth of the stock and the market value arises from the fact that the development pipeline is only one component of value creation. Besides the pipeline, market value is affected by the general yield environment and the occupancy level - this last one is especially important for a market which operates with a relatively high vacancy level like Budapest. Especially over the years of strong yield compression, yields proved to be an important driver of market value creation. On top of the development pipeline and yield effect, growing occupancy has added to the market value as well, hence the years between 2004 and 2007 can be described as a period when market value creation exceeded the growth in size.

We think 2008 is a turning point when increasing development pipeline collides with reversal in yield compression and a decrease in overall occupancy. Higher yields and a rising vacancy level will counter balance (but clearly not off set) the considerable value creation due to the development pipeline.

This short analysis has shown us that the market would have always been able to absorb even higher level of investment demand. The years before 2007 were falsely regarded as a period of short supply when buyers couldn't find properties to buy. We rather say that supply has always been sufficient, only the expectations of the buyers' and vendors' were not meeting. The current market situation is similar in a way that supply growth indicates increasing investment volume but there is again a pricing gap between the two parties.

OUTLOOK

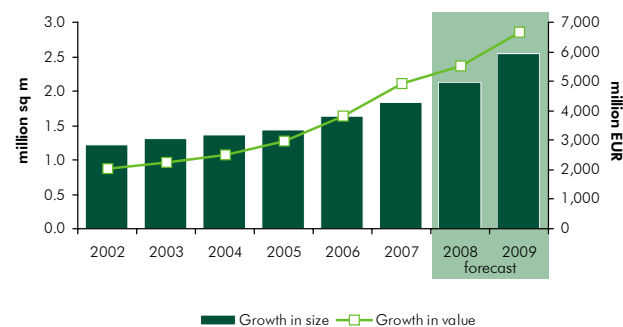
- After the drop in H1 2008, we expect volume to gradually increase in Q3 and Q4 given the strong investment pipeline.
- First owners are searching for favourable exit strategies which would further increase available supply.
- Forward transactions will be more in developers' interest than in previous year.
- Equity buyers are expected to further increase their share

HUNGARIAN OFFICE AND OTHER COMMERCIAL PROERTY INVESTMENT SINCE 2002



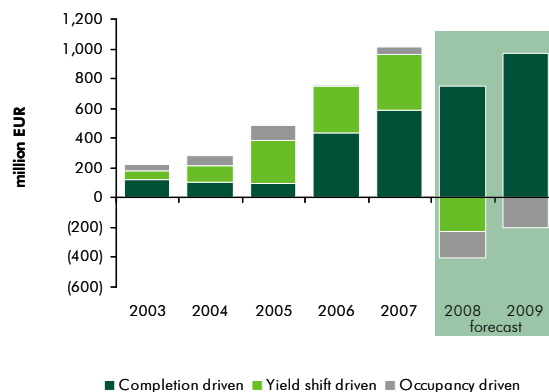
Source: CB Richard Ellis

OFFICE MARKET GROWTH IN SIZE AND VALUE



Source: CB Richard Ellis

COMPONENTS OF OFFICE VALUE GROWTH



Source: CB Richard Ellis