RE/MAX REAL ESTATE MARKET SUMMARY - Q3 2023

Macroeconomic environment

Expectations suggest that Hungary is increasingly likely to reach single-digit inflation by the end of the year. By the end of September, inflation had already fallen to 12.1%, a significant drop from 20.1% in June. However, the economic growth outlook forecast in previous quarters has deteriorated, with analysts expecting a 0.2 percent contraction by the end of the year and 3.8 percent growth by 2024.
The unemployment rate is currently 3.9%, and is not expected to fall much in 2023, but analysts expect a slight improvement (3.6%) in 2024.

High inflation this year has had a significant impact on real wages, which could fall by 1.9% on average in 2023. Positive developments in real wages are also expected next year, with real wage growth of up to 5.7 percent in 2024. By 2024, consumer confidence could recover, and growth could start to pick up.

The benchmark interest rate target is 11 percent by the end of 2023, rising to 6.4 percent by the end of 2024.

In the third quarter of the year, the forint weakened overall, but to a lesser extent. While the exchange rate was still around 373 Ft/Euro at the beginning of July, it had risen to 390 Ft/Euro by the end of September.

SEGMENTS OF THE REAL ESTATE MARKET

Office market

The total modern office stock in Budapest currently amounts to 4,344,580 sq.m, including 3,546,390 sq.m of modern speculative office space in categories "A" and "B", and 798,190 sq.m of freehold office buildings.

In the third quarter of 2023, the vacancy rate reached 13.2%, an increase of 0.6 percentage points compared to the previous quarter and 2.2 percentage points compared to the same period last year. In this quarter, the lowest vacancy rate was recorded in the Central sub-market of Buda, at 7.3%, while the highest remained in the agglomeration, at 36.9%.
The average rent for the entire modern office market was €14.2 per square meter per month, an annual increase of 1.8%. For category A offices, this price was €16.5, an increase of 0.7% compared to the previous year. (MNB)

<u>Expectations:</u> The projected delivery volumes and moderate demand are expected to lead to a further increase in the vacancy rate. No new developments have been launched in significant volumes. The average pre-letting rate for offices under construction is 38%.

<u>Yield level:</u> prime yield 6.5%, next quarter expected to be 7%.

Logistics /Industrial real estate market

At the end of the quarter, the total modern industrial/logistics stock stood at 5,047,330 sq.m nationwide. The vacancy rate has increased compared to the third quarter of 2023 and currently stands at 10%, up 5.1% year-on-year. A total of 345,870 sq.m of industrial/logistics space was vacant at the end of the quarter.

In the first half of 2023, 177,000 sq.m of industrial-logistics space was delivered in Budapest and its surroundings, which is a record for the first half of the year. One fifth of the new space put on the market in the first half of the year found a tenant by the time of handover. Typical supply rents at the end of the second quarter of 2023 were in the range of 4.95-5.60 euro/sq.m/month.

<u>Expectations:</u> 2,700,000 sq.m (+17%) of new space is expected to be delivered nationally in 2023. 85% of the new developments will be for owner-occupation, with a significant increase in the East. Pre-occupancy rate of developments under construction is 49%.

<u>Yield level:</u> Prime yield 7%, next quarter expected to be 8%.

Retail real estate market

As real wages have fallen, retail sales volumes have also fallen, in almost all types of shops, which hasanimpactontheretailpropertymarket.

The average rent level in Budapest's primary shopping centres ranges between 70 and 90 euro/sq.m/month, the typical supply rent in shopping streets is between 80 and 110 euro/sq.m/month and the rent level in Budapest's secondary shopping centres is between 30 and 50 euro/sq.m/month.

In the supply rents for shopping centres in regional cities, the top of the price band has increased from 35 to 40 euro/sq.m/month. In the first half of 2023, the occupancy rate of shopping centres in regional cities increased from the 2022 year-end level 5.5 percent to 9 percent. In the case of Budapest, there was stagnation in the occupancy rate for shopping centres and a slight decrease for primary centres.

<u>Expectations:</u> The retail market is closely linked to household consumption. If inflation continues to moderate over the coming year, consumption is expected to increase, leading to a slight increase in rents and occupancy levels as well.

<u>Yield level:</u> Prime yield 7%, next quarter expected to be 7.25%.

Hotel market

In the first eight months of 2023, the number of nights spent in commercial accommodation nationwide fell slightly, by 0.4%, compared to the same period last year. In this context, the number of domestic overnight stays, influenced by falling real wages, fell by 8 percent, while the number of overnight stays abroad increased by 11 percent, due to the impact of key international events. Revenue from commercial accommodation, especially hotels, in the period of January-August 2023 was 28 percent higher than in the same period of the previous year, while the number of hotel nights increased by 1 percent.

Expectations: Across the country, 3,500 new hotel rooms were under construction in the hotel sector at the end of June 2023, with delivery planned over the next one and a half to two years, although the delivery date is uncertain, and delays are expected similar as in previous years. Hotel occupancy in the CEE region continued to improve in the first half of 2023, with a gap of only 6.5 percentage points on average in the region compared to levels of 2019 prior to the pandemic.

Yield level: 7-7.25% for operating leases and 8-8.5% for management leases.

Agricultural land

The agricultural land market tightened dramatically last year. By 2022, the number of sales had fallen by 19% to 40.800. Meanwhile, the average hectare prices of agricultural lands have been risen to HUF 1.994.000 HUF for 2022, by 3.2%, according to NAV data.

Last year, forests and plough land increased the most, by 7.3 percent, while prices in the fruit and vegetable category rose by 1.7 percent, followed by a minimal 0.1-0.2 percent increase for vineyards and grasslands. The most expensive county in 2022 was Győr-Moson-Sopron, with a price of HUF 2.510.000 per hectare.

Based on NAV data, prices by agricultural sectors were the followings:
• plough – 2,189 million HUF/ha
• forest-covered – 1,213 million HUF/ha
• lawn – 1,177 million HUF/ha
• garden-orchard – 3,75 million HUF/ha
• vine – 4,25 million HUF/ha

Expectations: Due to the high inflation, an approx. 10% fall in real prices of agricultural lands were seen in 2022. Overall, a hectare of agricultural land purchased in 2010 increased its price by an average of 3.2 times compared to 2022, clearly reflecting the asset's resilience to economic trends.

Housing market

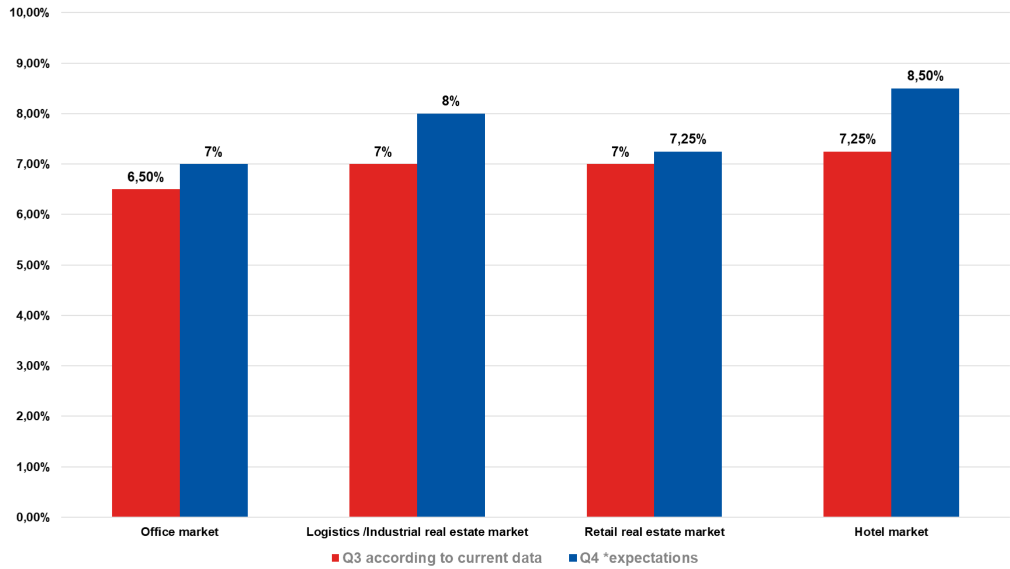
In the third quarter of 2023, there were more than 22,000 transactions in the residential property market, and 66,000 transactions in the first 9 months. Analysts expect the number of transactions to return to the level of the final quarter of the previous year in the last quarter of 2023.

The most sought-after average apartment size in the third quarter of 2023 on the Buda side of the capital was between 60-80 sq.m, while on the Pest side it was still between 40-60 sq.m.

The price of used brick apartments in Budapest decreased by 0.1 percent compared to the previous quarter, averaging HUF 953.000/sq.m. District V. is the most expensive, with an average price of HUF 1.750.000 per square metre, while District XX. is the cheapest, with an average price of HUF 673.000 per square metre. The average sales period for apartments is 4 months, with a bargaining rate of 5 percent.

Expectations: The CSOK Plus, which will be available from 1 January 2024, is expected to have a serious impact on the housing market. As a result of the programme, we expect a significant increase in housing demand, due to the stabilisation of the economic situation, the improvement of credit schemes and the recovery of consumer confidence.

Yield level: In Budapest, the average gross annual revenue share return is 5.6 percent.



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In addition to RE/MAX's internal databases, we have used the following sources in preparing our summary: KSH, MNB, GKI, BRF, OTP Termőföld Értéktérkép.