



# Sopron Business Park

## Europe Center



## VALUATION REPORT

### Vacant Land Area

June 15, 2002

**Business Park Sopron Ltd.**

**Valuation report**

of Vacant Land Area in Sopron,  
Hungary

KPMG Property Services

*This report contains 25 pages*

*June 15, 2002*

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- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (iv) that no account is taken of any additional bid by a prospective purchaser with special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

Decree 25/1997 of the Ministry of Finance gives the following definition of value related to properties for collateral purposes:

2. § (1) Mortgage value is the value of a real estate estimated in a careful manner. In mortgage valuation special risks of long-term loans provided by the Mortgage Loan Institute, and only those characteristics and yields of the real estate are taken into consideration, which would be probably due to any future proprietor.

(2) Mortgage value can be determined on the basis of the Market Value, which may be calculated by three methods:

- a) Sales Comparison Approach;
- b) Income Approach;
- c) Cost Approach.

(3) The valuation has to be completed applying at least two of the appraisal methods, but all three methods should be concerned if possible. After this the proposed mortgage value has to be determined in the appraisal report, on the basis of analysed data and different value indications, in a careful manner.

(4) Mortgage value does not include value-added tax.

3. § (1) In course of the determination of mortgage value special attention has to be paid to the following risks among risk factors usually analysed in valuation processes:

- i) long term value constancy of the real estate;
- ii) uncertainty of market data;
- c) uncertainty of other data;
- d) effects related to the demand enforcement (protection, preservation of condition, sale costs).

Before arriving at our opinion, we personally inspected the designated property, investigated local market conditions and considered the properly applicable valuation bases. When forming the opinion of the values we specified some special assumptions as follows:

- The subdivision of Phase One and Phase Two areas has been done according to the approved detailed regulation plan (RRT),



- The shape, sizes, land-use categories of the subdivided blocks are known,
- The subdivided size and the new urban land-use category has been registered,
- Having that plan approved the realization of the project can start immediately following the submission and approval of the building permit applications,
- All public utilities and infrastructure elements are available for the appraised land parcels of Phase One and Phase Two,
- The value of the land parcels, designated as Phase Two and Phase Three is very much depending on the success of the Phase One of the project.

Based upon the investigation, it is our opinion that the **Open Market Value** of the designated property assuming that subdivision of Phase One and Two has been completed and the basic infrastructure is provided, can be properly represented with an amount of **Five Billion Six Hundred Sixty One Million Hungarian Forints** (HUF 5,661,000,000) as of June 15, 2002. Our value indication excludes value added tax.

We did not consider cost that might be incurred by selling the property. We have not investigated the title to or any liabilities against the subject property. We assumed the property to be free and clear of all liens and encumbrances. We haven't made any due diligence on legal issues and we assumed that the properties are owned by the Company. The opinion of value expressed in this report can only be completely understood by reading the whole appraisal report, assumptions and limiting conditions and exhibits. This appraisal report is subject to the Assumptions and Limiting Conditions attached.

Respectfully submitted,

Pál Dános, MSc.Re MRICS

*director*

# 1 DESCRIPTION OF THE PROPERTY APPRAISED

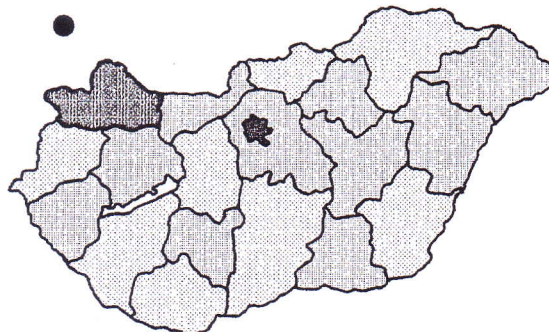
## 1.1 Introduction

KPMG Property Services Ltd. was assigned by Business Park Sopron Ltd (hereafter the Company) for updating our previous a valuation of an extensive land area in the Western Fringe of Hungary at Sopron. In the scope of the valuation there was the land itself with close attention given to its optimal use. The subject of the appraisal was the land property comprising of 1.511.669 square meters.

## 1.2 Location

Sopron is situated in the heart of Central-Europe at the meeting point of several important trade routes. The appraised development area is located 60 kilometers from Vienna, 90 kilometers from Győr and 220 kilometers from Budapest at the NorthWest part of Sopron. The subject area is bordered by No.84. national road, leading straight to the Austrian-Hungarian border crossing.

### SOPRON



The European highway network connection is only 14 kilometers away and the Schwechat Airport of Vienna is located only 55 kilometers from Sopron. The city is the railroad hub of the region with access from five directions. The Győr-Sopron-Ebenfurt Railways Company (GySEV) operates the RO-LA terminal for long-haul vehicles. This railway line borders the development area from South.

The subject large area used to be a traditional rural area of Sopron located at its western city limits. There is a variation in topography with the land sloping from the national road No.84 towards South and rising up to Nyugati Major Hill. The area is divided by two creeks; the Sós-patak and the Ikva-patak.

The new development is located at the West Side of the town only 5 kilometers from the Austrian border crossing. The area is suitable for creating a modern business park, which can accommodate enterprise zones, residential zones, commercial zones and entertainment facilities. The unique location of the area between the Austrian border and the historic town of Sopron gives a special potential for the rapid development of the area.



### 1.3 The historic Sopron at a glance



The town, called Scarbantia was a customs station and border of the Roman Empire. Following the Romans, the area became part of the Great Frank Empire. The Hungarians occupied Sopron in the 10<sup>th</sup> century. In the 17<sup>th</sup> century the economics of Sopron and its intellectual life rose to a high level. Kristóf Lackner, a renaissance minded mayor devoted great care to the development of science and arts. Secondary schools were founded, education was made free of charge, and schools-theatre performances were held in public. The 18<sup>th</sup> century brought an economic upswing for the town; significant urban developments had been taken place. Instead of defensive works rows of new shops and civic houses were built. Due to the significant immigration the number of inhabitants was more than twelve thousand in 1787. The opening of the coal mine at Brennberg

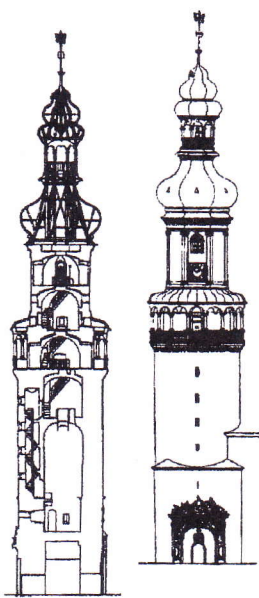
was also an important stage in the industrial development of the town. The 19<sup>th</sup> century trade was recovering after the French occupation. Industrial undertakings re-started and the railways connecting Sopron to Vienna were also built at that time.

After the revolution of 1848-49 the Imperials occupied Sopron and they did not leave before the War of Independence was over. After the World War One, the Trianon treaty and the revolution, Sopron had the chance to decide to be a part of Austria or of Hungary. In 1921 the town voted for Hungary. The development of Sopron slowed down between the two wars.

In the last fifty years new light industrial factories have been established, such good examples are the Carpet factory, the Clothing factory and the Timber processing Plant. In addition to economic development, the preservation and reconstruction of the historical physical environment of the city was carried out with great care. The historical city center was renewed. Because of this work Sopron was awarded with the Europe Prize in 1976. New schools, university, college and scientific research institutes were established. The number of inhabitants and the visitors have been increased. Sopron and its surroundings became a tourist and cultural center of the region.



## 1.4 Sopron today



The city is inhabited by 54,000 people with a total population of 80,000 including the greater Sopron vicinity. The lively town is a commercial and cultural center, which is not only a transit location of the foreign and national visitors, but also attracts thousands of tourists every year. In the last few years approximately 5-6 % of the tourists entering to Hungary visited Sopron. There are several tourist attractions within 10 kilometers distance of Sopron, such as the natural thermal bath in Balf or the Fertő Lake National Park. The Cave Theatre in Fertőrákos is unique and it attracts more and more visitors every year. Because of the vicinity of the Austrian border and the easy border crossing several joint ventures have been established here.

Due to certain price level advantages, Sopron became a popular shopping destination for the neighboring Austrians. The constant inflow of people working in the service segment -ranging from the cosmetics sector to the full variety of the healthcare- resulted in an increase of population. Today, more than 40 % of the employees work in the service sector.

The unemployment rate is approximately 5 percent. The education includes bilingual programs, industrial schools training skilled labor force. The University of Sopron educates forestry engineers, economy experts, furniture designers and heritage restorers. There are many quality producers, both small and medium enterprises operating with high technology, producing goods for export. These include textile, woodcraft, rubber, plastic, glass and machine tool production.

## 1.5 The appraised Land Parcels

There was a Detailed Regulation Plan prepared in 1996 and approved by the Sopron Municipality in the same year. The urban plan covers a gross area of about 80-100 hectares. The boundaries of this plan are, the national road No. 84., Lackner Kristóf road, the proposed west-side major road, Ikva-creek and the Győr-Sopron-Ebenfurt Railways.

The land parcels owned by the Shopping Center Sopron Rt. (predecessor of Business Park Sopron Rt.) are located within the two areas marked below. As it is seen the

The RRT proposed the modification of the category of the land from rural- to urban area. The process of the land category modification is completed as the Urban Development Committee of the Municipality has been approved the modification according to the RRT. According to our best knowledge the registration procedure of changing the land use category from agricultural to development –based on the approved RRT. is in progress.

The map displays two distinct regions highlighted by thick orange outlines. The upper region, titled "APPROVED REGULATION PLAN", encompasses several settlements and landmarks, including NYUGATI MAJOR, GSALZENBACH, TIEFENBACH, UNTER AECKE, and BELTERÜLET. It also features numerous alphanumeric codes such as 0872/2, 0880/1, 0875/3, 0856/1, 0848, 0880/3-39, 0882/1-16, 0847/3, 0847/2, 0847/1, 0847/4, 0847/5, 0847/6, 0847/7, 0847/8, 0847/9, 0847/10, 0847/11, 0847/12, 0847/13, 0847/14, 0847/15, 0847/16, 0847/17, 0847/18, 0847/19, 0847/20, 0847/21, 0847/22, 0847/23, 0847/24, 0847/25, 0847/26, 0847/27, 0847/28, 0847/29, 0847/30, 0847/31, 0847/32, 0847/33, 0847/34, 0847/35, 0847/36, 0847/37, 0847/38, 0847/39, 0847/40, 0847/41, 0847/42, 0847/43, 0847/44, 0847/45, 0847/46, 0847/47, 0847/48, 0847/49, 0847/50, 0847/51, 0847/52, 0847/53, 0847/54, 0847/55, 0847/56, 0847/57, 0847/58, 0847/59, 0847/60, 0847/61, 0847/62, 0847/63, 0847/64, 0847/65, 0847/66, 0847/67, 0847/68, 0847/69, 0847/70, 0847/71, 0847/72, 0847/73, 0847/74, 0847/75, 0847/76, 0847/77, 0847/78, 0847/79, 0847/80, 0847/81, 0847/82, 0847/83, 0847/84, 0847/85, 0847/86, 0847/87, 0847/88, 0847/89, 0847/90, 0847/91, 0847/92, 0847/93, 0847/94, 0847/95, 0847/96, 0847/97, 0847/98, 0847/99, 0847/100. The lower region, titled "REGULATION PLAN TO BE DONE", includes settlements like SEL-WIESEN, BURGERFELD, ZIEGEL, and BELTERÜLET, along with codes such as 0856/2, 0856/1, 0848, 0880/3-39, 0882/1-16, 0847/3, 0847/2, 0847/1, 0847/4, 0847/5, 0847/6, 0847/7, 0847/8, 0847/9, 0847/10, 0847/11, 0847/12, 0847/13, 0847/14, 0847/15, 0847/16, 0847/17, 0847/18, 0847/19, 0847/20, 0847/21, 0847/22, 0847/23, 0847/24, 0847/25, 0847/26, 0847/27, 0847/28, 0847/29, 0847/30, 0847/31, 0847/32, 0847/33, 0847/34, 0847/35, 0847/36, 0847/37, 0847/38, 0847/39, 0847/40, 0847/41, 0847/42, 0847/43, 0847/44, 0847/45, 0847/46, 0847/47, 0847/48, 0847/49, 0847/50, 0847/51, 0847/52, 0847/53, 0847/54, 0847/55, 0847/56, 0847/57, 0847/58, 0847/59, 0847/60, 0847/61, 0847/62, 0847/63, 0847/64, 0847/65, 0847/66, 0847/67, 0847/68, 0847/69, 0847/70, 0847/71, 0847/72, 0847/73, 0847/74, 0847/75, 0847/76, 0847/77, 0847/78, 0847/79, 0847/80, 0847/81, 0847/82, 0847/83, 0847/84, 0847/85, 0847/86, 0847/87, 0847/88, 0847/89, 0847/90, 0847/91, 0847/92, 0847/93, 0847/94, 0847/95, 0847/96, 0847/97, 0847/98, 0847/99, 0847/100.

The total gross size of the appraised property comprising of 30 land parcels is 1,511,669 square meters. On the next paragraph we give a list and identification of the land parcels. We marked those, which are identified as urban sites. Those areas, which are not covered by an approved Regulation Plan are identified as rural land and remained in agricultural category.



## 1.6 Ownership

According to copies of land registry extracts provided by the Company the appraised land parcels are owned by Shopping Center Sopron Rt. (the predecessor of Business Park Sopron Ltd) in 1/1 proportion. The following is a list of the owned land parcels.

*List of the land parcels according to land registry extracts*

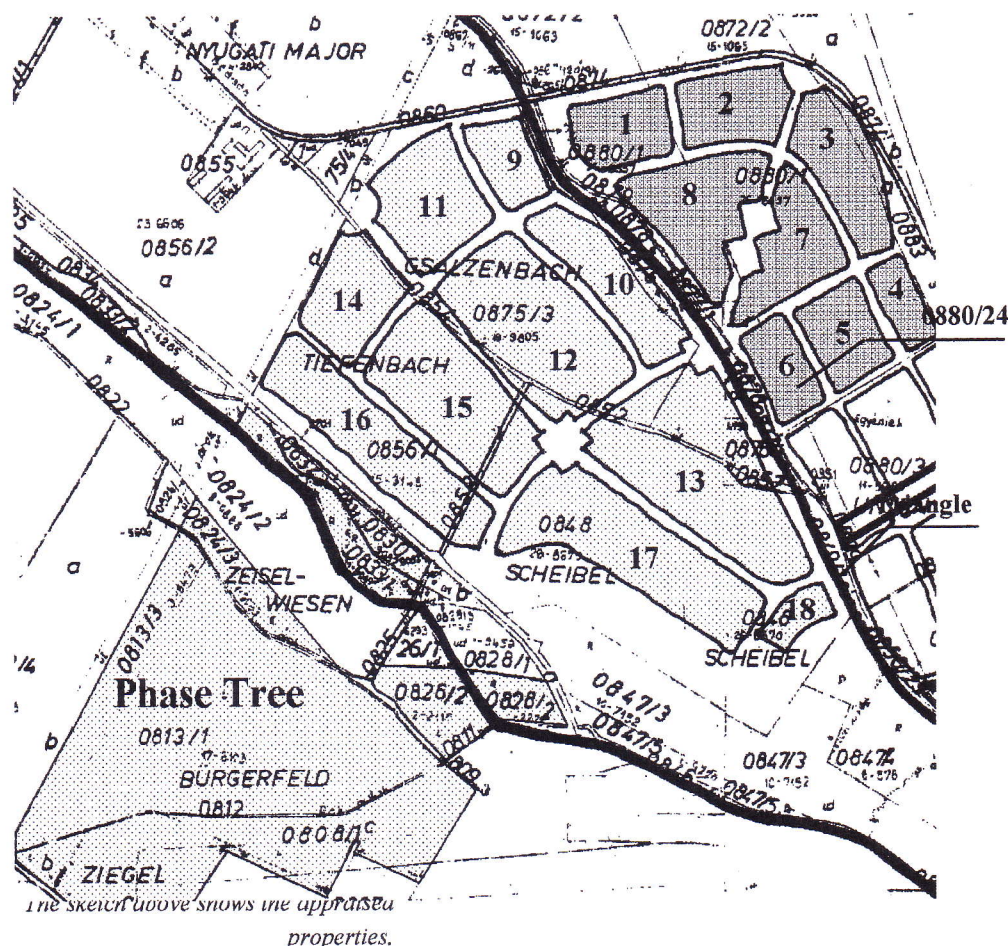
Development Phases	Registration Number	Registered Land Size (m <sup>2</sup> )	Land Use Status	Zoning Category
<b>Triangle</b>	1	0882/13	Urban	Development
<i>Subtotal</i>		<b>14,208</b>		
<b>Phase One</b>	2	0850/23	Urban	Development
	3	0851	Urban	Development
	4	0878	Urban	Development
	5	0880/1	Urban	Development
	6	0880/24	Urban	Development
	7	0883	Urban	Development
	8	0873/6	Urban	Development
<i>Subtotal</i>		<b>331,774</b>		
<b>Phase Two</b>	9	0847/5	Urban	Development
	10	0847/4	Urban	Development
	11	0848	Urban	Development
	12	0852	Urban	Development
	13	0853	Urban	Development
	14	0856/1	Urban	Development
	15	0875/3	Urban	Development
	16	0876	Urban	Development
<i>Subtotal</i>		<b>745,308</b>		
<b>Phase Three</b>	17	0809	Rural	Agricultural
	18	0813/1	Rural	Agricultural
	19	0813/3	Rural	Agricultural
	20	0824/3	Rural	Agricultural
	21	0825	Rural	Agricultural
	22	0826/2	Rural	Agricultural
	23	0828/2	Rural	Agricultural
	24	0829	Rural	Agricultural
	25	0830	Rural	Agricultural
	26	0831	Rural	Agricultural
	27	0832	Rural	Agricultural
	28	0833/1	Rural	Agricultural
	29	0808/1	Rural	Agricultural
	30	0868/2	Rural	Agricultural
<i>Subtotal</i>		<b>420,379</b>		
<b>Total gross size</b>		<b>1,511,669</b>		



## 1.7 Net development areas

The exact identification of net appraised areas was not possible as of the valuation date. The reason is that the subdivision of the large parcels according to the layout of the detailed Regulation Plan has not been made yet and it has not been registered in the Land Registry yet. The next map shows a sketch of approved subdivision proposal of the site prepared by the planners. According to the development plan 18 blocks were identified and roughly measured. The given estimated sizes are considered as net sellable land parcels as the areas of proposed roads, public areas and public parks had been deducted.

The 18 identified development blocks are listed in the next table showing the net sellable land parcel areas of each development block of Phase One and Two. No adjustments were made for Phase Three. During valuation of Phase Three, the registered land areas were considered.



Site Identification based on approved RRT - net estimated "sellable" areas:

Development Phases	Identification Number	Size	Zoning Category
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		(m <sup>2</sup> )	
<b>Triangle*</b>	Site registered # 0882/13	11,500	Development
	<b>Subtotal</b>	<b>11,500</b>	
<b>Phase One**</b>	# of Block 1	22,800	Development
	# of Block 2	26,300	Development
	# of Block 3	34,700	Development
	# of Block 4	12,600	Development
	# of Block 5	22,900	Development
	# of Block 6	18,900	Development
	# of Block 7	30,500	Development
	# of Block 8	39,100	Development
	Site registered # 0880/24	8,894	Development
	<b>Subtotal</b>	<b>216,694</b>	
<b>Phase Two**</b>	# of Block 9	19,000	Development
	# of Block 10	37,000	Development
	# of Block 11	37,000	Development
	# of Block 12	72,000	Development
	# of Block 13	83,000	Development
	# of Block 14	28,000	Development
	# of Block 15	62,000	Development
	# of Block 16	52,000	Development
	# of Block 17	66,000	Development
	# of Block 18	12,000	Development
	<b>Subtotal</b>	<b>468,000</b>	
<b>Phase Three***</b>	Site registered # 0809	502	Agriculture
	Site registered # 0813/1	176,103	Agriculture
	Site registered # 0813/3	38,479	Agriculture
	Site registered # 0824/3	19,093	Agriculture
	Site registered # 0825	2,082	Agriculture
	Site registered # 0826/2	22,110	Agriculture
	Site registered # 0828/2	12,273	Agriculture
	Site registered # 0829	371	Agriculture
	Site registered # 0830	9,082	Agriculture
	Site registered # 0831	1,601	Agriculture
	Site registered # 0832	2,701	Agriculture
	Site registered # 0833/1	18,049	Agriculture
	Site registered # 0808/1	115,994	Agriculture
	Site registered # 0868/2	1,939	Agriculture
	<b>Subtotal</b>	<b>420,379</b>	
<b>Total</b>		<b>1,116,573</b>	
* Land size estimated by KPMG			
** According to Approved RRT-estimated			
*** Based on registered size			



## 1.8 Infrastructure

As of the valuation date, the land parcels were not supplied with any public utilities. It is important to note that the basic condition of the approval of the RRT was the existence of preliminary permits from all relevant public utility works. According to this and to the planning documents, there are no any circumstances known, which might become an obstructive problem. The cost of the external public utilities comprising the main spine network up to the boundaries of the area designated in the RRT has not been estimated.

## 1.9 Planning and Development Issues

According to the approved detailed Development Plan Phase One is suitable for institutional, commercial, tourist, light industrial, residential, retail, warehousing and recreational functions and facilities. The breakdown of the RRT. proposal is summarized in the next table. The land use pattern of Phase Two is also shown.

*Land Uses based on approved RRT*

Proposed Land Use	Net Area (hectares)	Gross Floor Area (m <sup>2</sup> )	
		Minimum	Maximum
Phase One			
1 Entrepreneur zone	5,4	32 000	43 000
2 Commercial center	7,8	47 000	62 000
3 Institution & Others	7,7	46 000	61 000
<b>Total phase one</b>	<b>21</b>	<b>125 000</b>	<b>166 000</b>
Phase Two			
1 Entrepreneur zone	27	160 000	216 000
2 Institutions & business	10	75 000	100 000
3 Low Density Institution	9	40 000	54 000
4 Other Institution	1	5 000	8 000
5 Public Park	12	0	0
<b>Total phase two</b>	<b>59</b>	<b>280 000</b>	<b>378 000</b>
<b>Grand total</b>	<b>80</b>	<b>405 000</b>	<b>544 000</b>

It is important to note that net sellable areas of Phase Two include approximately 47 hectares altogether, which exclude the area of the proposed Public Park.



## 2 VALUATION OF LAND

### 2.1 Introduction

The valuation was made to express an opinion as of June 15, 2002, of the **Open Market Value** of the fee simple interest in the subject land as if available for sale on the open market. It is understood that this opinion will be utilized in the course of corporate planning and preliminary financing negotiations as collateral.

According to the Practice Statement 4.2 of RICS Appraisal & Valuation Manual OMV is an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (i) a willing seller;
- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (iv) that no account is taken of any additional bid by a prospective purchaser with special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

Before arriving at our opinion of value, we inspected the designated site and the subject neighbourhood. When arriving at an estimate of value for the appraised land its “**Optimal Use**” was considered. The applied “selected valuation basis” was the open market value, which we have arrived at by the *Sales Comparison (market) Approach*.

### 2.2 Highest and Best Use

Optimal use (Highest and Best Use)<sup>1</sup> is the reasonably probable use of vacant land or an improved property, which is physically possible, legally permitted, financially feasible, and results in the highest property value”.

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<sup>1</sup> Highest and best use is a term employed by the IVSC, and is widely used and understood in North America. It is synonymous with **Market Value**. Highest and best use is defined by IVSC as:

The most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

The four criteria that the optimal use must meet are

- legal permissibility,
- physical possibility,
- financial feasibility, and
- maximum profitability.

In the analysis of the optimal use of the appraised area of Triangle, Phase One, and Phase Two we have considered the regulations of the Detailed Regulation Plan (RRT), which provides a detailed specification on proposed constructions and future functions. The planning requirements were set to satisfy alternative needs and a variety of commercial, institutional and residential functions. The flexibility of the approved regulation plan is reflected in the permitted range of functions, but the regulations include several restrictions regarding to the built-up ratio, the maximum height of the buildings' facade, the minimum proportion of the landscaped area and so on.

When analysing the RRT requirements general market trends and economical factors were also considered. The functions described in the development plan, based on the planning principles comply with the real estate market trends of the region.

Regarding to its favourable location and accessibility as well as taking the relevant RRT regulations into consideration, the Triangle, Phase One and Phase Two areas are appropriate for accommodating the development program set by the Company.

It is our opinion that the mixed land use proposal with its flexibility and complexity will meet the market appreciation and will provide quality supply for the national and international demand. The subject proposal is driven by the real estate market, while considering the highest and best use of the adjoining areas (Phase Three) it can be predict that the development will be also market driven.

## 2.3 Valuation Methods

The valuation included a personal inspection of the subject properties, and consideration of the generally accepted methods.

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Clearly, a use that is not legally permissible or physically possible cannot be considered a highest and best use. A use that is both legally permissible and physically possible may nevertheless require a cogent explanation to justify the adoption of such use as being reasonably probable or appropriately justified. Once analysis establishes that one or more uses are reasonably probable, then this conclusion can be validated by a feasibility study. The use that results in the highest value would be the highest and best use, and would be analogous with the **Market Value definition**. –European Valuation Standards 2000-



The land valuation is directly related to optimal use. In any valuation process land value estimate is a separate step, which may be accomplished applying six different techniques. The most reliable way to estimate land value is by *Sales Comparison*. When few sales are available, however, or when the value indications produced through sales comparison need additional support, other procedures may be used to value land. The six procedures can be used to obtain land value indications are

1. Sales Comparison
2. Allocation
3. Extraction
4. Subdivision development
5. Land residual technique
6. Ground rent capitalization

In the subject valuation the primarily approach to be applied was the *Sales Comparison*. The *Allocation* is useful when the property is already improved. Still it can be used in two ways, to establish a typical ratio of land to total value or to isolate the value of either the land or the building. When applying the *Subdivision Development* the total value of undeveloped land is estimated as if the land were subdivided, developed and sold. Land Residual Technique assumes the land to be improved to its highest and best use. All expenses of operation and return attributable to other factors of production are deducted and the net income imputed to the land is capitalized to derive an estimate of land value. For many reasons this estimation is called the residual land value and it is not the same as the fair market value. When land rents and capitalization rates are readily available the *Ground Rent Capitalization* provides an estimation of value by capitalization of rents supported by the market.

## **2.4 Sales Comparison Approach**

In the sales comparison approach to valuation, similar properties, which have recently sold or are currently offered for sale in the open market are analyzed and compared with the property being appraised. Adjustments then are made for differences in such factors as date of sale; location; size, type, age, and condition of the improvements; prospective use; and financing. The sales comparison approach has its greatest value in appraisal situations involving land or improved properties within a particular development and having common elements and similar amenities.

In the absence of sales with sufficient similarity to allow direct comparison, other reasonably similar improved properties are considered because they provide a range of unit prices within which the current real estate market is operating and within which the appraised property would be expected to sell for whatever use the free market might develop. The reliability of this technique is dependent on the degree of comparability of each sale with the appraised property; the date of sale in relation to



the valuation date, taking into account market changes during the interim; and consideration of any unusual conditions affecting price or terms of sale.

As part of our analysis, we have investigated sales and offerings of comparable properties within the area where the subject is located. After analyzing sales and asking prices of similar land parcels provided by regional tax offices, local city councils, property brokers and developers, we have estimated a unitary value per square meter of land, the unitary value per square meter of gross permitted buildable area.

We gathered data on actual sales as well as listings and offerings; identified the similarities and differences in the data; ranked data according to their relevance; adjusted the sale prices of the comparables to account for the dissimilar characteristics of the land being appraised; and formed a conclusion as to the most reasonable and probable market value of the subject land.

Though we have investigated sales of comparable properties within the neighbourhood, none of the sample properties were similar in size. There is no example within the region of land sale of this scale. Therefore the subdivision of the land areas was closely investigated in the course of comparison.

#### **2.4.1 Sopron Property Market at a Glance**

In the followings we summarize the price trends experienced in Sopron and in the region. The inflow of foreign and domestic capital to the city and to this region influences its real estate market. If looking at the Austrian investors coming to Hungary it is significant that over 40 % choose Győr and more than 27% found Sopron an attractive place for setting up their ventures.

The real estate market of Sopron is more attractive than the Hungarian average. The very low unemployment rate and the variety of business opportunities influenced by the vicinity of Austria have encouraged the inflow of people. This inflow has resulted in a demand for residential housing, which was followed, by an increase in the demand for new business enterprises.

##### *Residential segment*

The price level of real estate in Sopron almost exceeds the Budapest average. Unit sales price in prefabricated condominium dwellings is around HUF 100,000-130,000 per sqm. Average unitary sales prices in newly built apartment buildings are in the range of HUF 170,000-290,000 per sqm. mostly depending on location. There are about 14 entrepreneurial housing development in our data base for Sopron. The largest project is the Sopron Park, developed by Transelektro Rt. This scheme

includes 225 dwellings sized between 30-120 sqm. The average unitary price is HUF 250,000 (cca. 1.000 USD) per sqm. of these in the Furthermore, unit price in a 35 unit condominium dwelling located within the ring-road is in the range of HUF 200,000-220,000 per sqm.

Land parcels suitable for single family housing in the outskirts of town are sold for a unit price of HUF 8,000-12,000 per sqm., while residential lots in the downtown suitable for higher density, condominium development are offered for HUF 15,000-30,000 per sqm. The potential purchasers of residential properties are both Hungarians and foreigners.

According to the plans of the local municipality further land areas will be available for housing beside Kutya hegy and Ágfalvi úti residential estates. Other land suitable for condominium development will be offered by the municipality in the area situated between Sopron Plaza and Jerevan Housing Estate.

According to the opinion of real estate brokers and agents the increasing supply has been resulted in an increasing vacancy rate (close to 40 %) for newly completed dwellings offered in the highest (HUF 300,000-340,000 /m<sup>2</sup>) price segments.

#### *Commercial segment*

The first commercial real estate developments in the retail sector started in 1990 when medium and small size shopping facilities were constructed. The number of registered retail ventures, are more than 3,000. Due to the special historical protection many of the small retail units are adequate neither from functional nor from business aspects. Easy accessibility by cars, cheap parking facilities, spacious shopping areas, covered shopping malls, and a mixture of retail, entertainment and service facilities became a basic requirement. Net monthly rental fees of downtown retail units are in the range of EURO 35-60 per sqm. Respectively, net rental fees of retail units located in the outskirts are in the range of EURO 8-12 per sqm. At the end of 1998 the first real shopping centre, the *Sopron Plaza* comprising of 20,000 sq.m. total area was opened. Net monthly rental fees are around EURO 10-16 per sqm. Special feature of the commercial real estate market segment is the medical services sector. Sopron is a centre of dental medical services with more than 300 dentists working here.

#### *Enterprise - Industrial segment*

The municipality of Sopron has agreed to the development of an industrial park on a 30 hectares site at the North-Eastern fringe of the town based on Phare CBC financial funding. The industrial park is called as *innovation park* by local property professionals, because it is said to be only suitable for office and light industrial development. Average prices of land parcels offered for sale are HUF 8,000-15,000 per sqm. The traditional industrial areas of the town are mostly obsolete with a high



built-up ratio of old buildings, where industrial and warehousing premises can be rented out at an average net monthly fee of HUF 500-1,500 per sqm.

#### **2.4.2 Application of the appraisal method**

In order to obtain relevant market information we have investigated the current real estate market. During our site visit we interviewed local brokers and professionals to complement secondary information. We summarize the price trends experienced in Sopron and in the region as follows:

- The offering unitary prices of land areas in enterprise zones suitable for industrial and commercial development are between HUF 8,000-12,000 per sqm in Győr-Moson-Sopron County.
- Land parcels –suitable for individual residential development- are offered in Sopron (Bécsi Hill) for a unitary value range of HUF 5,000 per sqm.
- In downtown locations of Sopron commercial land parcels with good exposure are offered for HUF 25,000 – 45,000 per sqm unitary price.
- In Sopron Industrial Park average unitary offering price is HUF 10,000 subject to size and location.
- In the vicinity of “Jerevan” city sector investors purchased about 20 hectares land area for future development. Average unitary price of parcels without proper infrastructure and utilities was HUF 6,000/m<sup>2</sup>.

When valuing the properties consideration was given to the following factors:

- No comparable market sale of an approximately 150 hectares land was available,
- In general, extensive land areas are sold for a lower unitary price than smaller, individual land parcels.

After analyzing all information available we are on the opinion that the applicable unitary value range for the appraised area can be defined as it is shown in the summary valuation table. The categories were defined according to the exposure, main road vicinity, layout and location within the area, built-up percentage, maximum buildable gross floor area, maximum floor area density, zoning category, land use pattern and land registration category (rural or urban).

When establishing the unitary values listed on the next page for the regulated (net) land parcels major assumptions had to be made, such as:

- the external public utilities are provided,
- the internal public utilities are permitted and major networks are available on the public areas,
- no public utilities are developed within the specific land parcels,

- the land parcels are divided according to the approved Detailed Regulation Plan,
- the project development is in progress.

When concluding unitary values (shown in next page) for *Phase Three* we assumed that the area has realistic potential to be part of a large-scale development in the future.

Based upon the investigation and analysis, it is our opinion that the **Open Market Value** of the designated property assuming that all basic infrastructure is provided and the subdivision of Phase One and Two has been completed, can be properly represented with an amount of **Five Billion Six Hundred Sixty One Million Hungarian Forints** (HUF 5,661,000,000) as of June 15, 2002. This opinion of value is subject to the assumptions listed above.



Summary Valuation Table

as of June 15, 2002

Development Phases	Identification of sites (RRT)	Size (m <sup>2</sup> )	Unitary Value (HUF/m <sup>2</sup> )	Open Market Value (HUF)
<b>Triangle*</b>	Site registered # 0882/13	11,500	14,600	167,900,000
<i>Subtotal</i>		<b>11,500</b>	<i>rounded</i>	<b>168,000,000</b>
<b>Phase One**</b>	# of Block 1	22,800	12,000	273,600,000
	# of Block 2	26,300	12,000	315,600,000
	# of Block 3	34,700	12,000	416,400,000
	# of Block 4	12,600	12,000	151,200,000
	# of Block 5	22,900	12,000	274,800,000
	# of Block 6	18,900	12,000	226,800,000
	# of Block 7	30,500	12,000	366,000,000
	# of Block 8	39,100	12,000	469,200,000
	Site registered # 0880/24	8,894	12,000	106,723,200
<i>Subtotal</i>		<b>216,694</b>	<i>rounded</i>	<b>2,600,323,200</b>
<b>Phase Two**</b>	# of Block 9	19,000	6,000	114,000,000
	# of Block 10	37,000	6,000	222,000,000
	# of Block 11	37,000	5,000	185,000,000
	# of Block 12	72,000	5,000	360,000,000
	# of Block 13	83,000	6,000	498,000,000
	# of Block 14	28,000	5,000	140,000,000
	# of Block 15	62,000	5,000	310,000,000
	# of Block 16	52,000	5,000	260,000,000
	# of Block 17	66,000	6,000	396,000,000
	# of Block 18	12,000	6,000	72,000,000
<i>Subtotal</i>		<b>468,000</b>	<i>rounded</i>	<b>2,557,000,000</b>
<b>Phase Three***</b>	Site registered # 0809	502	800	401,600
	Site registered # 0813/1	176,103	800	140,882,400
	Site registered # 0813/3	38,479	800	30,783,200
	Site registered # 0824/3	19,093	800	15,274,400
	Site registered # 0825	2,082	800	1,665,600
	Site registered # 0826/2	22,110	800	17,688,000
	Site registered # 0828/2	12,273	800	9,818,400
	Site registered # 0829	371	800	296,800
	Site registered # 0830	9,082	800	7,265,600
	Site registered # 0831	1,601	800	1,280,800
	Site registered # 0832	2,701	800	2,160,800
	Site registered # 0833/1	18,049	800	14,439,200
	Site registered # 0808/1	115,994	800	92,795,200
	Site registered # 0868/2	1,939	800	1,551,200
<i>Subtotal</i>		<b>420,379</b>	<i>rounded</i>	<b>336,000,000</b>
<b>Total</b>		<b>1,116,573</b>	<i>rounded HUF</i>	<b>5,661,000,000</b>

\* Land size estimated by KPMG-estimated

\*\* According to Approved RRT-estimated

\*\*\* Based on registered size

### 3 CONCLUSION

We have completed the appraisal of the designated assets exhibited to us as vacant development land area of proposed Business Park Sopron comprised of a gross 150 hectares land in Sopron. According to the copies of land registry extracts the appraised land parcels are owned by Shopping Center Sopron Rt. (the predecessor of Business Park Sopron Ltd) in 1/1 proportion.

We have made the appraisal to express an opinion of the **Open Market Value (OMV)** of the subject property as if offered for sale on the open market as of June 15, 2002, and to come forward with an indication for a **Proposed Mortgage Value (PMV)** on the basis of Decree 25/1997 of the Ministry of Finance. It is understood that this opinion will be utilized in the course of corporate planning and financing negotiations as collateral. This appraisal report can not be used for any other purpose.

According to the Practice Statement 4.2 of RICS Appraisal & Valuation Manual OMV is an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation.

It is important to note that local real estate brokers experienced a certain stability of the real estate market. Price trends of land prices –in general- are just following the CPI. Major reason is the high competition in terms of available supply of attractive investment options within the region.

Certain areas of the city, such as the appraised site, with significant development potentials are of greater interests among developers and investors. The lack of proper highway network connecting Sopron directly to major European transportation routes is considered as a factor –as of today- effecting and limiting market demand.

The potential reconstruction of the road between Győr and the Austrian border via Sopron is expected to be commenced within 4 years, which will – with the existing railway hub- strengthen the regional position of the town.



Based on our engagement we give a proposal for the collateral value as shown in the table below. In the proposal the main emphasis was given to marketability of different development phases. For information purposes we have expressed our conclusion of value in EURO, exchanged on the Hungarian National Bank's middle rate as of the appraisal date.

<i>Summary Table</i>		<i>as of June 15, 2002</i>
<b>Development Phases</b>	<b>Open Market Value (HUF)</b>	<b>Proposed Collateral Value (HUF)</b>
Triangle (HUF)	168,000,000	140,000,000
Phase One (HUF)	2,600,000,000	2,000,000,000
Phase Two (HUF)	2,557,000,000	2,000,000,000
Phase Three (HUF)	336,000,000	250,000,000
<b>Total in HUF</b>	<b>5,661,000,000</b>	<b>4,390,000,000</b>
<i>Exchange rate as of June 15, 2002</i>		1 EURO = 242 HUF
<b>Total in EURO</b>	<b>23,392,560</b>	<b>18,140,500</b>

## **4 ASSUMPTIONS AND LIMITING CONDITIONS**

1. No investigation has been made of the title to or any liabilities against the property appraised. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated. The property is appraised as being free and clear of any or all liens or encumbrances unless otherwise stated.
2. Responsible ownership and competent property management are assumed.
3. To the best of our knowledge, all data set forth in this report is true and accurate. Although gathered from reliable sources, no guarantee is given nor is any liability assumed for the accuracy of any data, opinions or estimates identified as being furnished by others, which have been used in formulating this analysis.
4. Building areas used in this appraisal were furnished by the Principal and have not been verified by independent engineers.
5. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, structures, or machinery and equipment that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
6. It is assumed that the property is in full compliance with all applicable state, and local environmental, zoning and use regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any government, or private entity organization, either have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
7. The value or values presented in this report are based upon the premises outlined herein and are valid only for the purpose or purposes stated. The date of value to which the conclusions and opinions expressed apply is set forth in this report. The value opinion herein rendered is based on the status of the national business economy and the purchasing power of the Forint as of that date.
8. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The value estimated is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge.
9. This report or any part of it can not be published without the prior written consent of KPMG.



## **5 EXHIBITS**

1. Land Registry Extracts of the appraised property
2. Map showing the Land area owned by Business Park Sopron Rt.
3. Land Use Pattern of the Approved Detailed Regulation Plan