

RESIDENTIAL MARKET M O N I T O R

THIRD QUARTER 2013

WELCOME

DEAR READERS, DEAR PEERS,

When studying the indicators of the housing market, we see the picture we are already used to: stagnating transaction numbers, declining prices, improving positions for buyers, longer times required for sale. We are no longer shocked by the new negative records in home construction statistics either. Anyhow, one shall not get tired of these, given that a boom will surely come, the question basically only is: when? Studying economic and lending forecasts on the one hand, and housing market trends, on the other, we can safely say this will not happen this year and, with a high probability, not even next year. In this situation, we can take the view of "half empty", because the continuously decreasing sales of newly-built homes give reason to worry; in home construction, both in terms of homes built for sale and the homes built for own use, a major drop is visible, indicating that not only property developers are in pessimistic mood, but households, too. But we can also take the view of "half full", because changes arising from life situations generate, regardless of the economic and financing situation, a stable figure of about 90,000 transactions p.a. ever since 2009, and it is highly probably that this year will also match this line. On the market of rented homes, a moderate, but stable increase is observed in rentals. However, instead of selecting one of these views, it might be a better idea to drink that glass half full, and make use of the fact that prices are 20 percent down from 2008, government subsidies actually provide good terms for the purchase of homes and, due to the minimal increase in rentals, the purchase of homes for the purpose of renting promises competitive returns.



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SUMMARY

RESIDENTIAL CONSTRUCTION

Decline in residential construction:

from the first half of 2012 to 2013, the number of occupancy permits dropped by 40 percent in Hungary, the number of construction permits by 30 percent. This decrease is just a continuation of the hedge-hopping seen since 2009, in addition, the slower decline observed in 2011-2012, started to gather pace again.

Elusive recovery in the capital city:

the number of delivered homes was 13 percent higher in Budapest in the first six months of 2013 as compared to the same period of the previous year. Still, with high probability, this is a one-off effect, attributable to the completion, at the same time, of a few investment projects with a large number of homes – a rarity on the market. In the number construction permits, a drop of 44 percent was observed in the same period.

No trend change to be expected:

a change in the number of construction permits is always the first indication of a change in the expectations of property developers, hence, of a trend change as well. Unfortunately, the downward trend persists in construction permits, therefore, no trend change can be expected in housing construction.

FINANCING ENVIRONMENT

Further on, new loans are scarce:

according to NBH (National Bank of Hungary) data, new, housing-purpose borrowing of the households amounted to 91.6 billion forints in the first eight months of 2013. This is 30 percent less than the respective activity measured in the same period of 2011.

Decrease in
average
borrowing costs:

by August 2013, the average APR indicator has been showing a decline for sixteen consecutive months. The effects of the rate cut are slow to show themselves, due to the longer interest periods. What counteracts a decrease in borrowing costs is that banks build in any risk-related costs, as well as their own burdens into the loan costs.

Deterioration in
prospects:

according to the central bank, the household sector will be net loan repayer even in the first quarter of 2015. The reason behind the negative change in the estimate represent the fragility of economic outlook, as well as negative expectations, cautiousness of the households.

HOUSING POLICY AND REGULATION

Faltering in
demand
recovery:

due to the low demand for loans and appetite for purchasing homes, the presently available social benefit schemes and the government's interest-rate subsidies are unable to exercise their demand-boosting effects. The introduction of the planned new programmes and within these, the "half-szocpol" (*"half social benefit"*), in particular, would be welcome, but their success also depends on the above factors. A positive element is that, with a more favourable economic environment and the improving expectations of households, with a strengthening of confidence, an already installed system will be in place, hopefully, for an increasing number of home buyers.

Exchange rate
fixing:

by the end of August 2013, more than 160,000 collection account contracts were concluded, by those who entered the exchange rate fixing facility. Roughly 40 percent of the eligible customers joined the exchange rate fixing scheme. For the time being, the theoretical demand-diminishing effect of the packages for currency loan debtors was not felt in practice.

Auction quota
system:

further on, banks do not use in full the possibilities offered to them by the auction quota system. At the same time, in spite of the forced sale exercises that were already launched, the basis for the quota increased, with small fluctuations, over the last quarters; at present, forced sale applies to 117,000 properties.

THE MARKET OF NEWLY-BUILT HOMES

Decline in sales: within total sales, the share of newly-built homes continues diminishing. Whilst in 2008, the share of newly-built homes in total sales was about 9 percent for the whole of the country and around 15 percent in Budapest, in 2012, this fell back to 3 and 4.5 percent, respectively.

Adaptation by buyers and developers:

more and more clients turn towards the purchase of homes for resale, due to the fact that the stock of unsold homes, already pre-picked, remained static, due to the lack of inflow. In addition to distrust, hoped-for bargains on the market of homes for resale also orient attention to this segment. Developers minimise their risks and they focus on projects with low numbers of units.

THE MARKET OF HOMES FOR RESALE

Turnover similar to 2011:

the number of transactions in the first nine months of the year reminds the level of 2011. This year as well, the transaction number of about 90,000 that we already "used to" shall be expected on the housing market. This also means that most important driving force on the residential market remain the demographic changes.

Growth in bargaining:

sellers are compelled to provide allowances not only when the contract is concluded, but already prior to that, during the selling process, they have to lower their prices. In the first three quarters of this year, the extent of total price allowance was 13.7%, or 70 basis points higher, in a comparison with the same period of the previous year. In the case of brick-built and blockhouse homes for resale, we registered an increase, while in the case of family houses, some minimal decrease.

Longer selling times:

when comparing data for the first quarters of this year with data for the same period in 2012, a further increase is observable in each segment. For selling brick-built homes, owners needed, on average, 4.5 months, for the selling of blockhouse homes, 3 months, and in the case of family houses, an average of 7 months.

THE MARKET OF RENTED HOMES

Increase in rentals:

rentals were higher in the first nine months of this year than in the same period of the previous year, that is, there is a moderate rise since 3 years. Even if this increase is stable, the fees did not reach even the level of 2009, and to levels measured prior to the crisis, the lag is 10-15 percent.

Yields:

in the case of properties purchased at present for the purpose of lease, for an investment period of 10 years, yields between 8 and 9 percent could be achieved.

LAND MARKET

Land prices:

land prices significantly dropped during the crisis, similarly to housing prices, due to the drop in demand. On the basis of the first nine months of this year, in downtown Budapest, one shall expect to spend an average of HUF 25,000 on each square meter of construction plots. In the larger cities of the countryside, the average price per square meter is around HUF 9-12,000.

Plots looked for:

In Budapest, demand is the most important for plots of HUF 7-8 million and 24-25 million, with 1000 square meters, in Pest County, for plots of HUF 5-10 million, 700-900 square meters. In both the eastern and western halves of the country, demand is concentrated for plots offered at a price of HUF 7 million. The largest number of queries applies to plots of 500-700 sq. meters in the East, and 800 sq. meters in the West.



RESIDENTIAL CONSTRUCTION

KEY FINDINGS

Decline in residential construction:

from the first half of 2012 to 2013, the number of occupancy permits dropped by 40 percent in Hungary, the number of construction permits by 30 percent. This decrease is just a continuation of the hedge-hopping seen since 2009, in addition, the slower decline observed in 2011-2012, started to gather pace again.

Elusive recovery in the capital city:

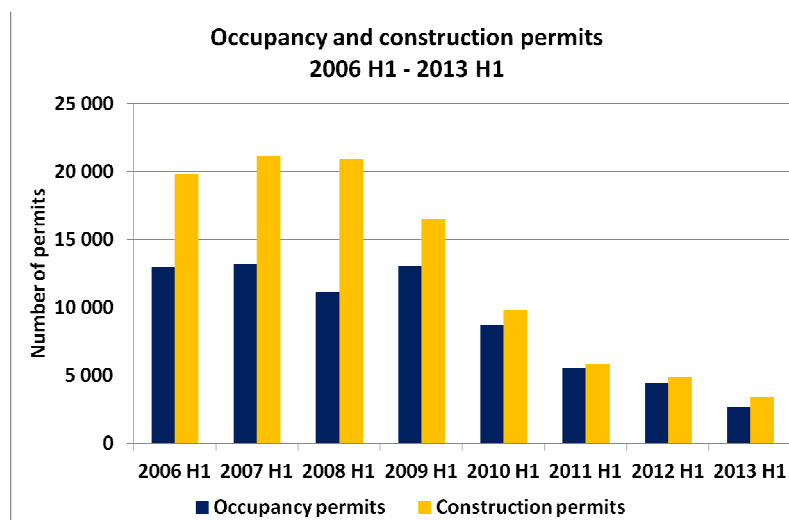
the number of delivered homes was 13 percent higher in Budapest in the first six months of 2013 as compared to the same period of the previous year. Still, with high probability, this is a one-off effect, attributable to the completion, at the same time, of a few investment projects with a large number of homes – a rarity on the market. In the number construction permits, a drop of 44 percent was observed in the same period.

No trend change to be expected:

a change in the number of construction permits is always the first indication of a change in the expectations of property developers, hence, of a trend change as well. Unfortunately, the downward trend persists in construction permits, therefore, no trend change can be expected in housing construction.

The downward trend in home constructions, persisting since years was not interrupted in the first half of this year either. The number of occupancy permits lagged behind the figure for the same period of 2012 by 40 per cent, the number of construction permits by 30 percent. On top of that, the decrease at a slower pace, observed for 2012 to 2011, started to accelerate again for 2013 to 2012. This drop of 30-40 percent is permanently typical for first-half housing construction, ever since 2009. This year, it is very likely that the number of occupancy and construction permits will be even inferior to 10,000. According to our estimates, the number of occupancy permits might reach 6-7,000, that of construction permits, 7-8,000.

1 - Main indicators of housing construction in Hungary



Source: KSH (Central Statistics Office)

With regard to the size of the housing stock (4.4 million homes in 2012) and the change in the number of inhabitants per 100 homes (where a decrease took place, from 269 persons in 2001 to 248 persons in 2011), the decline in the number of new residential constructions may not appear worrying, as the new homes are not only added to the housing stock, but they shall be also considered a replacement, for higher quality and energy-related considerations. Unfortunately, no exact statistics exist on the quality of the housing stock, but the increase in energy efficiency, gaining ground, can be achieved by quality-oriented replacements and refurbishments. The decision between a refurbishment or replacement of a home or a building is made on the basis of efficacy. Also, one shall not forget that developers of homes for sale, acting purely on a market basis, make their decisions not based on a consideration of energy efficiency in the total stock, but rather based on individual economic interests.

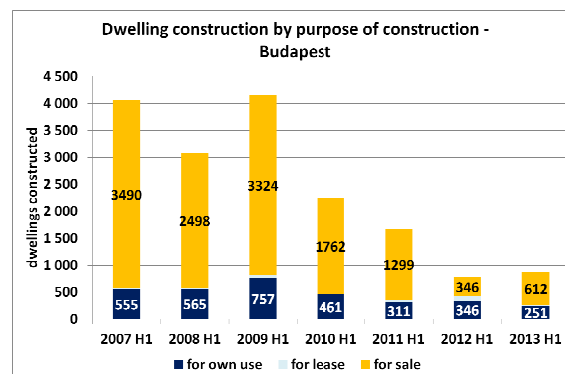
The number of construction permits is relatively closely followed by the number of occupancy permits, with a one-year gap, that is, the number of construction permits issued can be a good indicator for the number of homes to be completed. On this basis, no trend change can be expected in housing construction.

REGIONAL DIFFERENCES

The first half of 2013 brought a rise in the number of completed homes in Budapest, with 13 percent more occupancy permits issued in the first six months, as compared to the previous year. This increase, unfortunately, is not likely to be a sign for the trend change, rather it is attributable to a very low basis figure. In the first half of the year, two or three major projects brought the increase to previous half-year period, and the increase was due to the larger number of units and a low basis. Still, this growth is elusive, because projects with a large number of units are very rare on the market, therefore, we probably have to do with a one-off effect. The more so that in the number construction permits, which is a good indicator for the developers' expectations, a 44 percent drop can be observed.

Also in the share of homes built for sale to the homes for own use, some positive shift occurred in the capital city, due to the above-mentioned larger projects, but here as well, we can only speak about a one-off effect, not a change in the trend. The share of homes built for sale was around 70 percent in the first six months. This is already close to the level of 80 percent prior to the crisis, but in absolute terms, this is only a fraction of the pre-crisis level.

2 - Breakdown by construction purpose in housing construction - Budapest



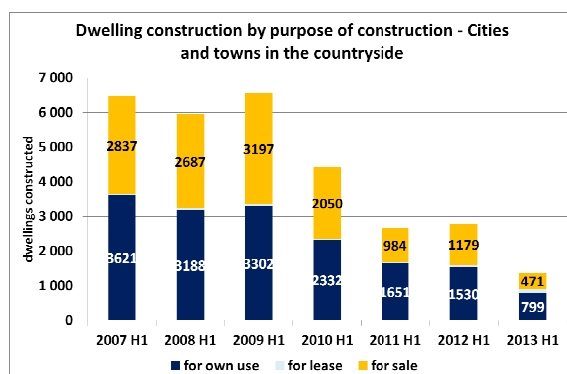
Source: KSH

The number of occupancy permits reduced in the towns and villages of the countryside. In the cities with county rights, the drop was 41 percent, in the other towns and villages, 55 and 58 percent, respectively. In the villages, where home construction for own use is dominant, the decrease in the number of completed homes shows that the hedge-hopping of the residential construction is caused not only by the halt in profit-oriented real estate development, but the construction appetite of households is also significantly restrained by the unfavourable economic and financing environment. The lack of confidence shows itself not only in the low number of sale and purchase transactions, but also the low volume of construction for own use.

In the cities and towns of the countryside, after an increase in the number occupancy permits observed from the first half of 2011 to the first half of 2012, again, a significant decrease of 50 percent was observable in the first half of 2013. This decline is attributable mainly to home construction for sale, where the decrease was over 60 percent, but the number of homes built for own use was also halved.

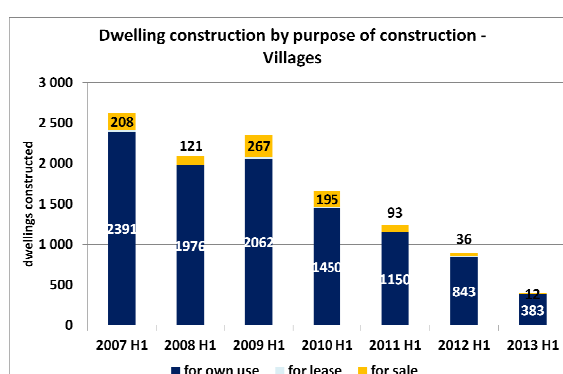
In terms of construction permits, an increase was observed only in the cities with county rights: a modest 4 percent. In the other cities and towns, the decline observed in the number of permits showing readiness for construction was 34 percent.

3 - Breakdown by construction purpose in housing construction – towns and cities in the countryside



Source: KSH

4 - Breakdown by construction purpose in housing construction – villages



Source: Otthon Centrum

In the villages, construction of homes for own use remained dominant, but even in their case, the decline is significant.



FINANCING ENVIRONMENT

KEY FINDINGS

Further on, new loans are scarce:

according to NBH (National Bank of Hungary) data, new, housing-purpose borrowing of the households amounted to 91.6 billion forints in the first eight months of 2013. This is 30 percent less than the respective activity measured in the same period of 2011.

Decrease in average borrowing costs:

by August 2013, the average APR indicator has been showing a decline for sixteen consecutive months. The effects of the rate cut are slow to show themselves, due to the longer interest periods. What counteracts a decrease in borrowing costs is that banks build in any risk-related costs, as well as their own burdens into the loan costs.

Deterioration in prospects:

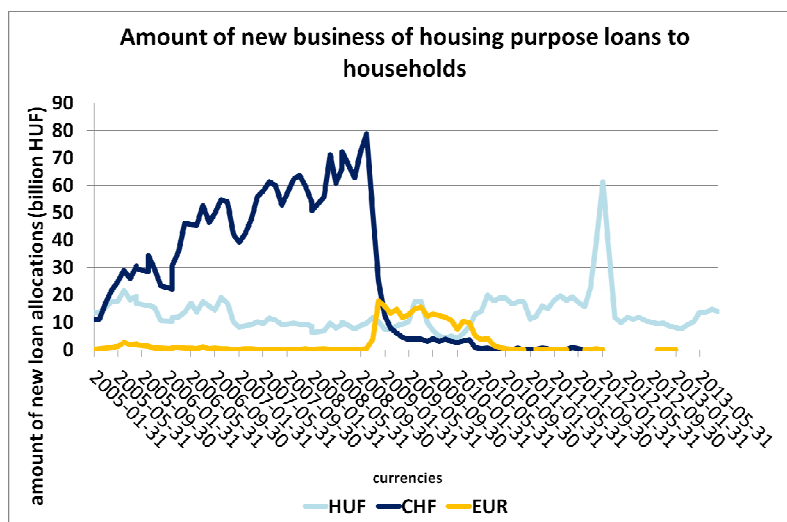
according to the central bank, the household sector will be net loan repayer even in the first quarter of 2015. The reason behind the negative change in the estimate represent the fragility of economic outlook, as well as negative expectations, cautiousness of the households.

In August 2013, the loan stock of households diminished by HUF 22.4 billion. This change is the product of opposite processes, given that in August, the households were net borrowers in forints, but net repayers in currencues. In the case of forint loans, NBH registered an increment of HUF 6.9 billion, which includes loans disbursed in the framework of the exchange rate fixing, to collection accounts. The decrease in transactions related to currency loans was 29.3 billion forints in August. The stock of retail housing loans amounted to 3,423 billion forints in August 2013, within that, forint-denominated loans represent 1,589 billion, currency-denominated loans 1,834 billion.

New loans placed for housing purposes amounted to 13.9 billion forints in August 2013, which is 80 percent higher than the lowest level measured this year, in February 2013, with 7.7 billion forints. In percentage terms, this is a significant increase, but it does not

provide grounds for optimism, given that this is due mainly to the low basis figure. The contractual amount of the new housing loans placed in the first 8 months was 91.6 billion forints, only 1.5 billion more than the contractual amount of the loans placed in a single month of 2008, namely, October. Some sharp increase occurred in new loans in May 2013, but since that time, the level keeps stagnating at about 13-14 billion forints per month.

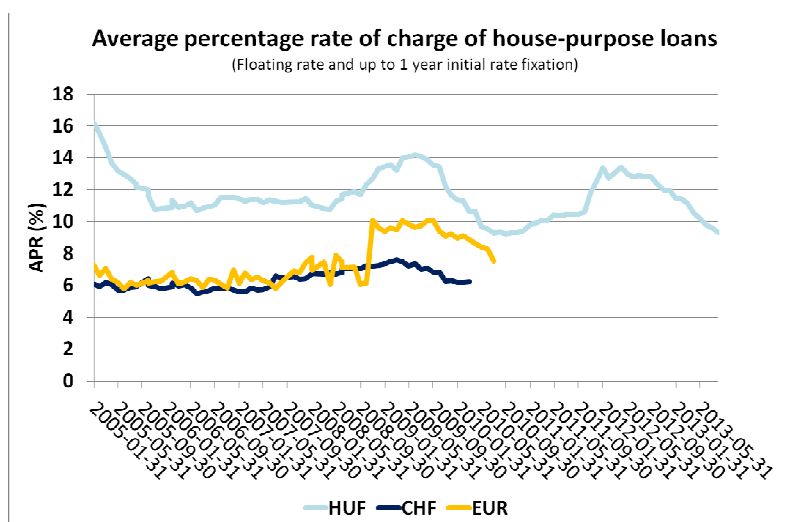
5 – Amount of new loan placements, retail loans for housing



Source: NBH (National Bank of Hungary)

A correction in the average APR that started with the closing of the one-off final settlement is still in process; in August 2013, its value has been decreasing for sixteen consecutive months. In the decrease of loan costs, in addition to the above-mentioned correction, the cuts of the base rate also play a role. However, this manifests itself only moderately, because due to the longer interest period, some time is needed for the repricing of loans. In the opinion of NBH experts, what counteracts a decrease in borrowing costs is that banks build in any risk-related costs, as well as their own burdens into the loan costs, and this holds back the decrease in the average APR.

6 – Average APR of retail housing loans

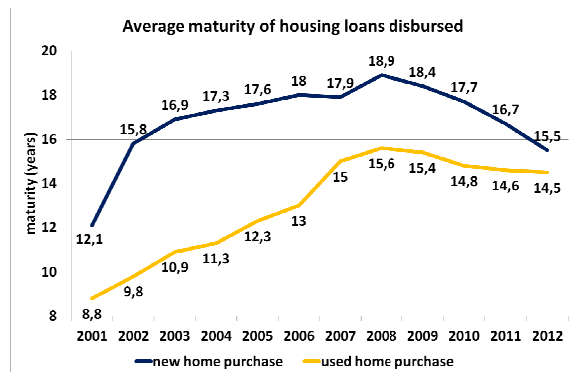


Source: NBH (National Bank of Hungary)

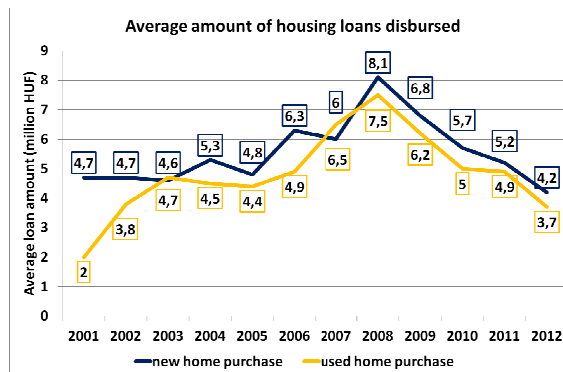
In 2012, the average maturity of loans for the purchase of homes for resale seems to get stabilised at about 14-15 years; from 2010, only a minimal increase can be observed in average maturity, based on data of KSH. In the case of loans disbursed for the purchase

of newly-built homes, on the other hand, the average maturity continued to decrease; in four years, from the record level of 19 to 15.5 years in 2012. It is important to take into account that sales of newly-built homes dropped significantly, therefore, loans of this type are also disbursed only in a small number.

7 - Average maturity of the loans disbursed for housing purpose



8 - Amount of the loans disbursed for housing purpose



Source: KSH (Central Statistics Office)

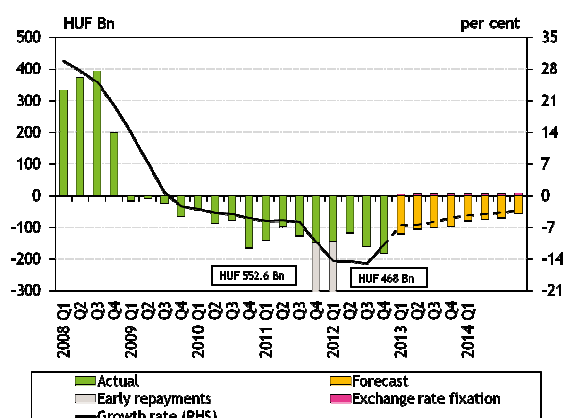
In the case of average loan amount, a further decrease can be seen in the case of loans, both for the purchase of homes for resale and the newly built ones. This is a good indication that the readiness of families to get indebted is low.

LENDING FORECAST

NBH has moved its previous retail lending forecast in a negative direction again. According to the central bank, the household sector will be net loan repayer even in the first quarter of 2015. The reason behind the more important drop in the estimated demand represent the fragility of economic outlook, as well as negative expectations and the cautiousness of households.

For a revival of household-purpose lending, a pickup in the housing market demand is also needed. The above forecasts do not offer a rosy picture for the housing market; in the absence of lending, we expect stagnation also for 2013. In view of the financing environment, an improvement will be needed also in the expectations of households (safety of their jobs, their income) to let the market awake from the dream of Sleeping Beauty.

9 – Average APR of retail housing loans



Source: NBH (National Bank of Hungary)



HOUSING POLICY AND REGULATION

KEY FINDINGS

Faltering in demand recovery:

due to the low demand for loans and appetite for purchasing homes, the presently available social benefit schemes and the government's interest-rate subsidies are unable to exercise their demand-boosting effects. The introduction of the planned new programmes and within these, the "half-szocpol" (*"half social benefit"*), in particular, would be welcome, but their success also depends on the above factors. A positive element is that, with a more favourable economic environment and the improving expectations of households, with a strengthening of confidence, an already installed system will be in place, hopefully, for an increasing number of home buyers.

Exchange rate fixing:

by the end of August 2013, more than 160,000 collection account contracts were concluded, by those who entered the exchange rate fixing facility. Roughly 40 percent of the eligible customers joined the exchange rate fixing scheme. For the time being, the theoretical demand-diminishing effect of the packages for currency loan debtors was not felt in practice.

Auction quota system:

further on, banks do not use in full the possibilities offered to them by the auction quota system. At the same time, in spite of the forced sale exercises that were already launched, the basis for the quota increased, with small fluctuations, over the last quarters; at present, forced sale applies to 117,000 properties.

GOVERNMENT PROGRAMMES FOR BOOSTING DEMAND

We already presented in detail the available system of government subsidies to interest rates and social benefits in previous issues of Residential Market Monitor; essentially, the system is about providing, subject to family size and ground area, a non-repayable subsidy within the range of HUF 800,000 and HUF 2.5 m for the purchase of newly built

homes. For the time being, these measures could not produce the demand-boosting effect expected from them earlier. Due to the permanent decline in the sales of newly-built homes, the social benefit can provide assistance only to a very small segment of the buyers. At the same time, despite their actually very favourable conditions, due to low demand for loans, a boosting effect cannot develop from there. Even though some positive drift can be observed in lending, the effect of the loans with interest rate subsidies cannot be demonstrated yet. According to our experience, for the time being only those make use of these schemes who think in terms of a home purchase financed by loans. New entrants cannot be attracted to the market, unfortunately.

The planned new government programmes are also aimed at boosting demand. Essentially, "half szocpol" is about receiving half of the subsidy amount of the total social benefit, but this amount can be used for the purpose of buying homes from previous owners as well – this topic was covered in detail in the previous issue of Residential Market Monitor, based on the planned terms that became known to date. Given that this benefit would be available for the purchase of homes for resale, it would cover a much larger segment, representing 95 percent of the market, and so it might have a more important impact on boosting demand. Of course, a lot depends on the exact terms, especially the size of the assistance, and also on the energy-related considerations which may restrict the scope of eligible homes for purchase under this scheme. It is a fact that its introduction would be welcome, and its implementation, as soon as possible, is badly needed on the market.

The latest government plan is to provide government assistance to employees in legal service in the purchase of their homes. When this analysis was prepared, the terms and conditions of this programme were not known yet, but according to preliminary information, the government is planning a long-term assistance scheme, where employees in public service would receive help also for ensuring their own contribution. Without knowing the terms and conditions, it is impossible to assess the programme's effect.

A typical feature of the government measures for boosting demand, in effect at present or planned is that their effect will depend significantly on demand for such solutions, as well as the readiness of households for purchasing a home and for borrowing. At present, the expectations of households are negative, confidence in the future and income is unstable, and so, even though the assistance schemes can provide help, the families do not make use of them, due to the lack of confidence; therefore they cannot exercise an impact on boosting demand on the housing market. A positive element is that, with a more favourable economic environment and the improving expectations of households, with a strengthening of confidence, an already installed system will be in place, hopefully, for an increasing number of home buyers.

PROGRAMMES TO ASSIST CURRENCY DEBTORS

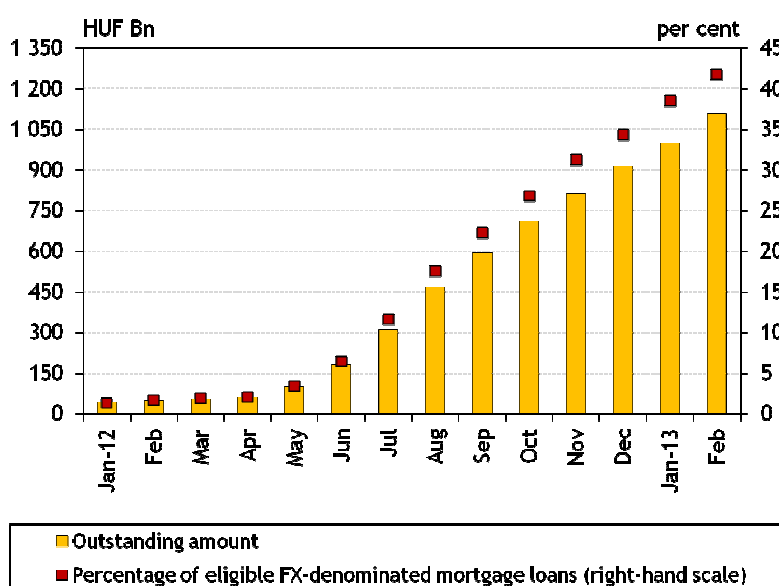
The government launched several programmes aimed at helping housing loan debtors struggling with payment problems, in particular, debtors of foreign currency loans. In this subchapter, similarly to previous issues of our publications, we present the operation of these programmes.

We have already presented in detail the terms and conditions of exchange rate fixing, in previous issues of Residential Market Monitor. In short, in the new, modified system of exchange rate fixing, the instalment calculated at or below the fixed exchange rates – in the case of the Swiss franc, 180 HUF/CHF, in the case of the euro, 250 HUF/EUR, in the case of the Japanese yen, 2.5 HUF/JPY – shall be paid in full by the debtor. From the portion of the instalment that exceeds the fixed exchange rate, which is the difference between the instalments calculated on the basis of the market exchange rate and at the above, fixed exchange rate, the debtor is liable only for the payment of the principal.

Even that is not to be paid immediately, but this amount is recorded by the bank on a collection account, as the amount charged to the debtor. The bank remits the portion of interests and interest-type fees, which is the other portion of the instalments due above the fixed exchange rate, and the debtor will not be required to pay that later either. By the way, this amount will be borne by the bank and the government in equal portions.

According to NBH data, until 31 August 2013, a total of 160,321 collection account loan contracts were signed, where by now a debt of 10,025 million has been accumulated by the users of the exchange rate fixing scheme. The total stock of currency loans protected by the exchange rate fixing scheme was roughly 1,335 billion forints at the end of August. The deadline for joining the programme was extended several times, and finally, from May 2013, exchange rate fixing became available on a continuous basis. The scheme is in effect for 60 months from joining.

10 – Utilisation of the exchange rate fixing facility



Source: NBH (National Bank of Hungary)

We also already presented the operation of the National Asset Management Company (*Nemzeti Eszközkezelő Társaság, NET*) in Residential Market Monitor earlier, where activities became stronger recently. By the end of July 2013, NET accepted 7,300 properties offered, but this is not identical with the number of actually purchased properties. Only 6 percent of the properties are located in Budapest. The number of properties where help from NET was requested is the largest in Borsod-Abaúj-Zemplén County, as well as Szabolcs-Szatmár-Bereg County; the smallest it is in Vas County and Győr-Moson-Sopron County.

The direct effect of the above on the real estate market might be manifested in a narrowing of the offer. Those who join the exchange rate fixing scheme might withdraw their properties from the market, if they offered these for sale explicitly due to payment difficulties. This may mean a reduction in bidding and may have a positive impact in the present situation of oversupply. At the same time, it is important to note that in practice, an easing of the oversupply cannot be seen yet.

AUCTION QUOTA

The auction quota system is operational already since mid-2011, we covered its rules in detail in previous issues of Residential Market Monitor. Essentially, this is a facility for banks to transfer for forced sale (that is, to initiate the sale of the property in a court

procedure or submit an application for enforcement regarding that property) on a quarterly basis, only a certain portion of their loan stocks in default since more than 90 days. In 2013, the quota amounts to 4 percent for each quarter. The auction quota was designed to avoid a situation where properties representing collaterals behind loans in default come to the market, all of them at the same time, generating a major drop in the prices there.

According to NBH data, the basis for the quota at present consists of 117,000 properties. Even though forced sales could start in the year 2011, the basis of the quota, with some fluctuations, increased until the third quarter of 2013.

Quarterly, NBH publishes the number of properties selected for forced sale and the quota utilisation levels. As witnessed by these statistics, banks do not use in full their possibilities offered by the auction quota system, the utilisation ratio was around 70 percent in the last quarters. Even if no official information is available on the reasons for such low popularity, in the management of non-performing loans, an important decision-making criterion for the bank is the recovery of the claim.

1 - Evolution of quotas for the forced sale of property collaterals behind loans overdue since more than 90 days

	basis of the quota	utilisation of the quota
4Q2011	100,268	72%
1Q2012	99,778	83%
2Q2012	107,182	84%
3Q2012	113,846	70%
4Q2012	112,286	68%
1Q2013	110,670	71%
2Q2013	115,076	72%
3Q2013	117,335	74%

Source: NBH (National Bank of Hungary)

The sale of the property upon mutual consent between the bank and the debtor may be one of the alternatives of the forced sales described above. According to the experiences of Otthon Help (a company belonging to the same corporate group as Otthon Centrum, providing help in the sale, management, value appraisal of properties provided as collaterals for loans in default from the point of view of banks), banks manifest an increasing interest in the sale of properties standing behind bad debt, jointly with the debtor.

The auction quota system is designed to cushion the impact of forced sales on prices. In practice, this worked well to date, and it is highly probable that we cannot expect in the future either a decrease in prices coming from forced sales. The purpose of joint sale together with the debtor is selling at market prices, that is, no pressure comes from there on prices and this may even bring some widening of the offer, depending on the rate of sales.

Even though the auction quota system remains in effect until the end of 2014, elimination of bad debts and the sale of properties used as collateral to these will require, with high probability, several years.



THE MARKET OF NEWLY-BUILT HOMES

KEY FINDINGS

Decline in sales: within total sales, the share of newly-built homes continues diminishing. Whilst in 2008, the share of newly-built homes in total sales was about 9 percent for the whole of the country and around 15 percent in Budapest, in 2012, this fell back to 3 and 4.5 percent, respectively.

Adaptation by buyers and developers: more and more clients turn towards the purchase of homes for resale, due to the fact that the stock of unsold homes, already pre-picked, remained static, due to the lack of inflow. In addition to distrust, hoped-for bargains on the market of homes for resale also orient attention to this segment. Developers minimise their risks and they focus on projects with low numbers of units.

Notes to the methodology: accurate data on the sale and purchase of newly-built homes are available from the procedure of imposing the respective fee. NAV (the Hungarian tax authority), in charge of maintaining that database, makes the decision on the basis of the duty/fee allowance applicable to the purchase of new homes whether the property in the given sale and purchase was a new one, or an existing one. It can happen, however, that prior to the purchase of a new home, the buyer already sold a property, and for him/her, the fee payable is more preferential, if the fee due for the new home can be diminished by deducting the fee already paid, instead of making use of the fee allowance offered for the purchase of the new home. In other words, it is thinkable that some of the transactions implying newly-built homes are classified by NAV as sale and purchase of existing residential property. Therefore, the number of transactions for newly built homes in the KSH statistics, originating from NAV, shall be considered as a lower estimate for the number of transactions with new homes.

Statements on the Budapest market of newly-built homes are based on the project database of Otthon Centrum, in addition to KSH data. This database contains, retrospectively, from 2005, the data of newly built homes and projects offered for sale, as at the date of the semi-annual updating process. For instance, the number of sales transactions, the delivered and unsold stock of homes and the main characteristics of the homes.

Home construction statistics already predicted a negative picture on the market of newly-built homes, what we already saw in the study of market indicators. Not only the number of newly built homes for own use is in historical lows, a serious drop can be seen in the sales of newly-built homes as well.

According to KSH statistics, ever since the crisis, the share of newly-built homes in sales is constantly decreasing. Whilst since 2009, the total sale and purchase level is consistently around 90,000, the sale of newly-built homes is diminishing, which reflects a narrowing of the offer, on the one hand, and distrust of buyers, on the other. Whilst in 2008, the share of newly-built homes in total sales was about 9 percent for the whole of the country and around 15 percent in Budapest, in 2012, this fell back to 3 and 4.5 percent, respectively. Therefore, with stagnating transaction numbers on the market, the share of newly-built homes dropped to one-third of the previous level.

2 - Number of newly-built homes sold and their share in total transactions

number of transactions (#)	2008	2009	2010	2011	2012
homes for resale	140,000	82,900	85,500	83,900	83,323
new homes	14,100	8,300	4,800	3,900	2,634
homes for resale in Budapest	34,504	20,674	24,714	22,578	23,916
new homes in Budapest	5,798	3,064	2,015	1,551	1,124
share of new homes in sales	9.15%	9.10%	5.32%	4.44%	3.06%
share of new homes in sales, Budapest	14.39%	12.91%	7.54%	6.43%	4.49%

Source: KSH, Otthon Centrum

There are two main reasons why buyers are turning away from the market of newly-built homes. On the one hand, the general lack of confidence can be felt on the market of newly-built homes as well, as manifested in the interest of buyers only in already completed homes or the ones that are very close to completion, as they do not dare to pay instalments of the purchase price for longer periods, in advance. But this implies serious difficulties for developers in the financing, because they are having difficulties, similarly to their buyers, in accessing to funds from the banks. This is exactly why, in spite of distrust, it is not a rare phenomenon on the market that a project with a small number of units where the construction permit was already issued, and even the sales are relatively strong, the developer needs to sell one or two flats, in order to start the construction.

Another reason for a strengthening of the market of homes for resale is that the stock of newly-built homes offered for sale at present (this means 3-4,000 homes in Budapest) is a very static one, given that less and less new homes are built for sale. In other words, for an update of the stock, a resupply is missing, therefore, the buyers face an offer of homes, not particularly changing, and many times already pre-picked, and so, if they do not find a home corresponding to their needs, they might easily continue their search on the market of homes for resale.

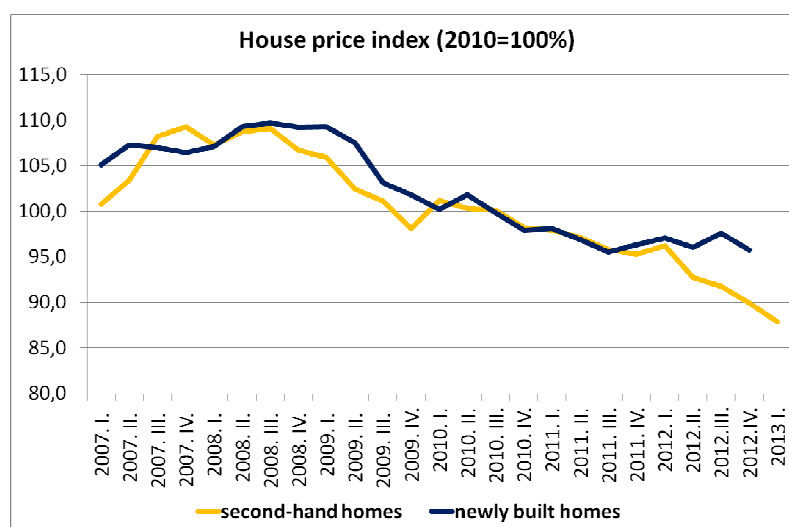
On the developers' side, the already presented adaptation forms remained observable. Further on, projects with a small number of flats represent a majority on the market, and developers continue their efforts to lure the buyers with price allowances (a discount to the listed price, free garage or storage room etc.). One can experience increasingly often that the completed homes are rented out by the developers. As a result, these homes are either completely leaving the market, or the developer will offer the home together with the tenant. In such cases, lease contracts for a determined period are frequent, ensuring that even in the case of a change in ownership, the lessee shall be able to remain there. This might be attractive for buyers who are looking for investment opportunities, given that the property can produce income immediately.

A typical feature of developers' adaptation is that whilst in 2007, the average number of units built in the capital city for the purpose of sale was 60, by 2012, this figure dropped below 20. On the market at present, projects with a small number of units dominate, not rarely investments with 4-8 flats.

For the time being, government incentives are unable to stop this hedge-hopping of the market of newly-built homes. Neither social benefits, nor interest-rate subsidies could result in boosting demand on the market of newly built homes.

According to KSH statistics, the average price per square meter of newly-built homes sold in 2012 was around HUF 345,000. In the cities and towns of the countryside, KSH registered an average price of 225,000 per square meter, but the number of transactions was very low in the countryside. Prices of newly-built homes showed a stagnation trend from the second half of 2011, as opposed to the prices of homes sold by owners, where from the second quarter of 2012, after a short stagnation period, another decline is observed. In connection with price evolution for newly-built homes it is to be noted that their average price is calculated by KSH on the basis of far less transactions. In the first quarter of 2013, for instance, the number of transactions did not allow KSH to calculate an average price: the number of such homes sold was less than one hundred.

11 – Housing price indices in Hungary



Source: KSH, Otthon Centrum



THE MARKET OF HOMES FOR RESALE

KEY FINDINGS

Turnover similar to 2011:

the number of transactions in the first nine months of the year reminds the level of 2011. This year as well, the transaction number of about 90,000 that we already “used to” shall be expected on the housing market. This also means that most important driving force on the residential market remain the demographic changes.

Growth in bargaining:

sellers are compelled to provide allowances not only when the contract is concluded, but already prior to that, during the selling process, they have to lower their prices. In the first three quarters of this year, the extent of total price allowance was 13.7%, or 70 basis points higher, in a comparison with the same period of the previous year. In the case of brick-built and blockhouse homes for resale, we registered an increase, while in the case of family houses, some minimal decrease.

Longer selling times:

when comparing data for the first quarters of this year with data for the same period in 2012, a further increase is observable in each segment. For selling brick-built homes, owners needed, on average, 4.5 months, for the selling of blockhouse homes, 3 months, and in the case of family houses, an average of 7 months.

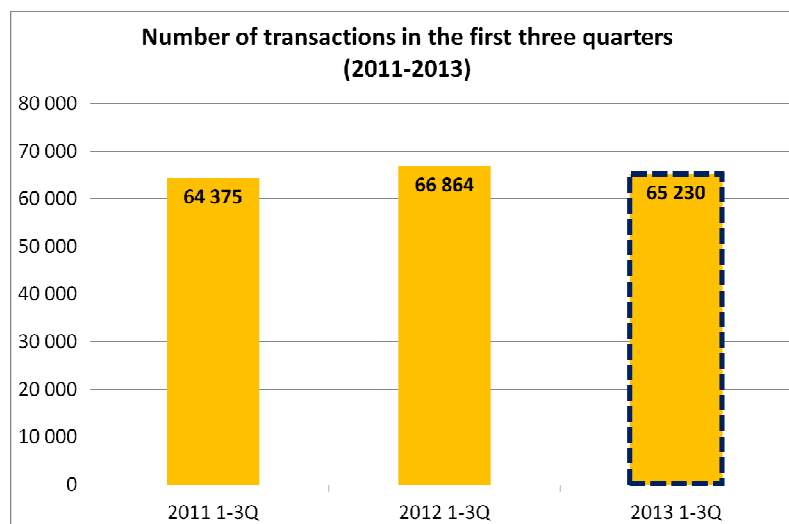
In this chapter, we present the main trends of the market of homes for resale. Detailed analyses on the market of residential property sold by owners are provided in our Residential Advisor publication.

TURNOVER

The turnover experienced in the first three quarters of this year can be compared best to the turnover in the first nine months of 2011. In 2012, the closing of the one-off final repayment brought a large number of purchases brought forward, therefore, a

comparison of this year's first three quarters with the same period of last year does not provide a realistic picture. The turnover measured in the first nine months of this year was roughly identical with the sale and purchase figures observed in the first three quarters of 2011 (including newly-built homes as well).

12 – Number of transactions on the market of residential property, in the first nine months of 2011-2013



Source: KSH, Otthon Centrum
*Otthon Centrum estimate

The reason behind the relatively stable level of turnover, representing roughly 2 percent of the total real estate stock is that the decisions of market players are motivated most of all by changes in their life situations. These demographical changes produce, more and more independently from the present situation in the economy and financing, a need for low-level, but stable homes for living and the overwhelming portion of that need is met on the market of homes for resale.

EVOLUTION OF PRICES

3 - Average prices per square meter, by types of property and regions, in the first three quarters of 2013 (thousand forints)

1-3Q2013 (thHUF)	brick home for resale	block home for resale	brick house for resale
Budapest	260	170	235
East	165	125	130
West	180	145	130
Pest County	190	155	180

Source: Otthon Centrum

Prices in housing show, after a short period of stagnation by the end of 2011, a downward trend again, which continued in 2013 as well. As compared to the top level of 2008, the net change in prices, as calculated by KSH, was more than 20 percent until the first quarter of 2013. According to experiences of Otthon Centrum, the decrease can be seen first of all in the case of brick-built homes sold by the owners; in the first nine months of the year, the average price of blockhouse homes is already stagnating, in a comparison with last year's corresponding period. In the case of brick-built flats and houses, a decrease of a few percents can be seen in the same period.

PRICE BARGAIN

For calculating the price bargain, we investigate the total price-cutting granted in the selling process. In the case of total price allowance, we compare the price indicated by the seller when the order was given, to the selling price. The difference between the two prices comes from the price bargain in selling, on the one hand, achievable by the buyer in the process of concluding the contract. On the other hand, it also comes from price reductions granted by the seller in the process of selling. It can be seen clearly that the larger portion of the total price-cutting comes from price bargain in the process of concluding the contract, but it reflects well the pricing difficulties typical for the market that the decrease in the offer price is 5 percent, on average.

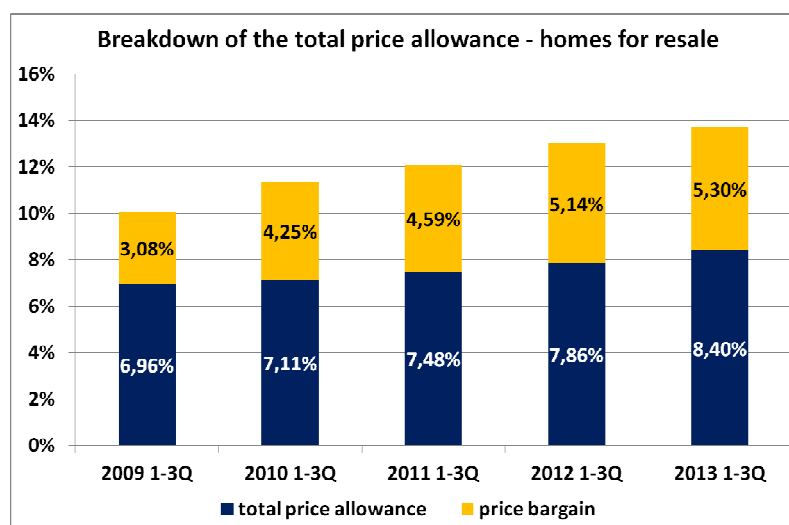
4 - The extent of total price allowance, by types of property, 2013 1_3Q

type of property	total price allowance	within that, when the contract is signed
brick home for resale	12.93%	7.66%
brick house for resale	17.59%	11.38%
block home for resale	9.29%	5.82%

Source: Otthon Centrum

In the first nine months of 2013, the size of total price allowance was 70 basis points higher than in the same period of the previous year, that is, it amounted to 13.7 percent. An increase could be observed in the buyers' bargaining possibilities both in the case of blockhouse and brick-built homes, at the same time, bargaining was more moderate in the case of brick-built houses. Regarding both blockhouse and brick-built homes, the increment is equally distributed between a cut in the offer price and the price bargain preceding the conclusion of the contract. The extent of the price cuts tends to be the same in the country's different regions, the only exception being Pest County, where a weaker bargaining position of buyers is manifested also in terms of total price cut. In the more important bargain observed in the agglomeration area a role is played also by the fact that in the property stock of that area, family houses are dominant and these offer, on their own, a larger extent of bargaining.

13 – Breakdown of the total price allowance, in the first nine months of 2009-2013



Source: Otthon Centrum

It is important to know that the above bargain values always show the average size of the price allowances, but price cuts inferior or superior to these also occur. The extent of the allowance to be made by the sellers from the initial price is largely dependent on how

sanguine their hopes were when they started and how far they can accept the market price levels.

SELLING TIME

In the first nine months of 2013, selling times continued to lengthen to the same period of the previous year. Such lengthening can be observed in respect of all types of properties, where for selling blockhouse flats, 3 months are required, for brick-built flats, 4.5 and for brick-built family houses, 7 months, on average.

In a comparison with the other types of properties, the selling times of blockhouse flats were shorter already prior to the crisis. The background might be that, as opposed to brick-built flats and houses, blockhouse flats represent a more homogeneous segment, the number of parameters where differences exist is smaller, and this shortens the period required for making comparisons and the decision about the purchase.

5 Average selling times in days, by type of property

type of property	2012 1-3Q	2013 1-3Q
Brick home for resale	116	134
Block home for resale	75	95
Brick house for resale	198	211

Source: Otthon Centrum

When assessing these data, it should be taken into consideration that the time needed for the sale of properties shows a huge standard deviation; we can come across flats sold within a matter of weeks, and it is not a rarity either that the property spends even a full year on the market. Average selling times shall be assessed accordingly.



THE MARKET OF RENTED HOMES

KEY FINDINGS

Increase in rentals:

rentals were higher in the first nine months of this year than in the same period of the previous year, that is, there is a moderate rise since 3 years. Even if this increase is stable, the fees did not reach even the level of 2009, and to levels measured prior to the crisis, the lag is 10-15 percent.

Yields:

in the case of properties purchased at present for the purpose of lease, for an investment period of 10 years, yields between 8 and 9 percent could be achieved.

Notes to the methodology: on the market of rented homes, we only have limited information available. Due to the high ownership ratio, the relatively narrow market of rented property generates few renting contracts in itself, in addition, many contracts belong to the gray or black zones of the economy, therefore, information hidden there cannot be accessed. In accordance with that, no central register exists for lease contracts (similar to the one used for sale and purchase information, from the database of NAV or KSH), that is, statistics we became used to in the case of sale and purchase, covering the whole of the market, are not available here. Therefore, in the analysis we can use only data on the transactions administered through the Otthon Centrum network.

Further information on the rental market is available in our Residential Market Adviser.

EVOLUTION OF RENTALS

In respect of all three types of property studied, slow growth of rentals continued, on the basis of data for the first nine months of this year. Rentals kept decreasing in the period from 2008 to 2010, a trend change started in 2011. Even if already for three years, this increase in rentals was moderate, but stable, these did not reach the level of 2009 yet, and to levels measured prior to the crisis, the lag is another 10-15 percent. Stable growth, at any rate, gives reason for confidence.

6 - Average rentals per square meter, by types of property

type of property	2011 1-3Q	2012 1-3Q	2013 1-3Q
Brick home for resale	HUF 1,290	HUF 1,370	HUF 1,400
Block home for resale	HUF 950	HUF 980	HUF 1,090
Brick house for resale	HUF 960	HUF 960	HUF 1,050

Source: Otthon Centrum

YIELDS

Among investment strategies, one of the most frequently employed solutions is purchasing for lease. This may become particularly popular now that property prices are decreasing. In frequented areas, such as in the proximity of universities and colleges, in cities with important demand for manpower, the lease of a property provides secure revenue. In this chapter, we demonstrate the profit that can be realised from lease, by calculating the theoretical yield.

In the model, we calculated with an investment period of 10 years, which means that in the first year, the flat acquired in 2013 is leased by its new owner for ten years and, at the end of the tenth year, it is sold. In the model, we used the following assumptions:

- *The property's nominal value follows inflation, that is, it maintains its real value, but its owner cannot calculate with an increase in the real value. This assumption is supported by the fact that in the case of properties purchased for the purpose of a lease, the main criteria are good location and easy occupancy, and in the case of properties fulfilling these criteria, the investor shall not necessarily expect a significant increase in the price as well.*
- *At the time when the property is acquired, we calculated with the duties in effect and an attorney fee of 1 percent. The purchase of the property is realised fully from own funds.*
- *For the 10 years, we set an average inflation of 3.22 percent*
- *From the second year, the owner spends HUF 100,000, in real terms, on maintenance, and in the fifth year, a fivefold of that amount, for refurbishment. The costs of renovation in the individual years were indexed with inflation.*
- *The amount of the tax payable on the revenues from the annual rental fee was calculated with the PIT level of the current 16 percent. For simplicity, we calculated with this tax rate for each year.*
- *The annual rental fee increases each year at a rate identical with inflation, but we did not calculate in the model with an increase in rental fees in real terms.*
- *The property is assumed to be leased all throughout those 10 years.*

In the model, we calculated yields based on data of some types of leases, highly searched for. We established the purchase price and the revenue from renting on the basis of the ground area of properties having attracted the largest number of queries, the average selling price for the first three quarters of 2013 and the average rental fees per square meter in the same period. Yields are around 8-9 percent for the different properties.

7 - Yields achievable through lease in the case of some popular types of renting, 3Q2013

City, town or village	Type of property	ground area	yield
Budapest	block home for resale	50 sqm	9.14%
Budapest	brick home for resale	40 sqm	8.26%
Budapest	brick home for resale	60 sqm	8.77%
Western part of the country	brick home for resale	60 sqm	9.13%
Eastern part of the country	block home for resale	50 sqm	9.73%
Pest County	brick-built house for resale	100 sqm	7.96%

Source: Otthon Centrum



LAND MARKET

KEY FINDINGS

Land prices:

land prices significantly dropped during the crisis, similarly to housing prices, due to the drop in demand. On the basis of the first nine months of this year, in downtown Budapest, one shall expect to spend an average of HUF 25,000 on each square meter of construction plots. In the larger cities of the countryside, the average price per square meter is around HUF 9-12,000.

Plots looked for:

In Budapest, demand is the most important for plots of HUF 7-8 million and 24-25 million, with 1000 square meters, in Pest County, for plots of HUF 5-10 million, 700-900 square meters. In both the eastern and western halves of the country, demand is concentrated for plots offered at a price of HUF 7 million. The largest number of queries applies to plots of 500-700 sq. meters in the East, and 800 sq. meters in the West.

Notes to the methodology: We investigate buyers' preferences on the basis of queries referring to specific properties included in the advertisements. The study covers two criteria in the case of plots: the price and size of the plots. We classify properties into groups, based on their prices, by a scale of one million forints, based on the area, by one hundred square meters. We establish for the different groups how many queries were received for plots belonging to the given group. The values indicated for the individual groups always show the middle of a group, that is, for plots of 10 million, for instance, properties ranging from 9.5 million to 10.5 million will be considered. This also means that plots of 400 square meters, plots with 350-450 square meters will be included. In this chapter, we use the preferences from queries referring to plots in urban areas, advertised via Otthon Centrum in the first quarter of 2013.

PLOTS LOOKED FOR

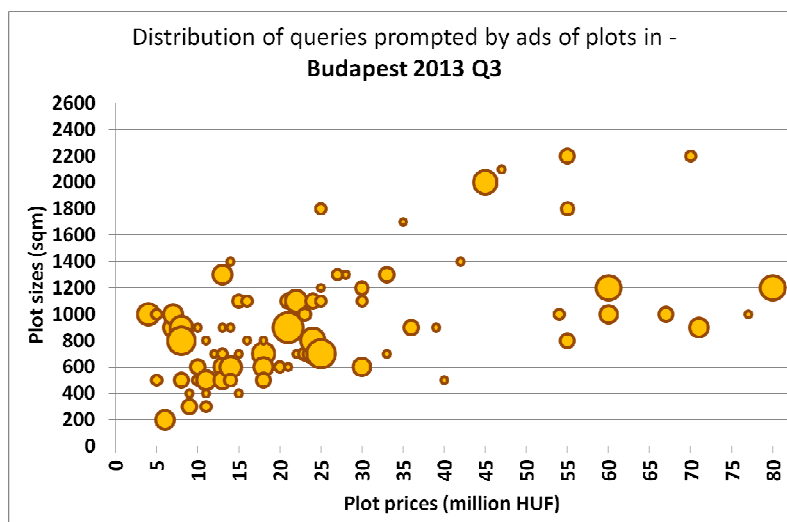
In this chapter, we investigate the queries received in the third quarter of 2013, based on prices and ground area. In the survey only urban area construction plots are considered.

Budapest

In the capital city, on the market of construction plots in urban areas, demand was the strongest in the range of 7-8 million forints, but another popular target group were the land plots at 24-25 million forints and the ones priced at 13-14 million also generated considerable interest. Two-thirds of the queries on construction plots applied to the range of 7 to 30 million forints, but in the higher strata, properties at 60 and 80 million also generated interest. Not in large numbers, but demand exists for plots above the level of

100 million as well. Both in the category of 7-8 million and 23-24 million, plots of about 1000 square meters were the ones most searched for; the price difference mainly comes from the difference in locations. Regardless of prices, the plot size most looked for was around 700 and 900 square meters.

14 - Urban area construction plots searched for – Budapest, 3rd quarter of 2013

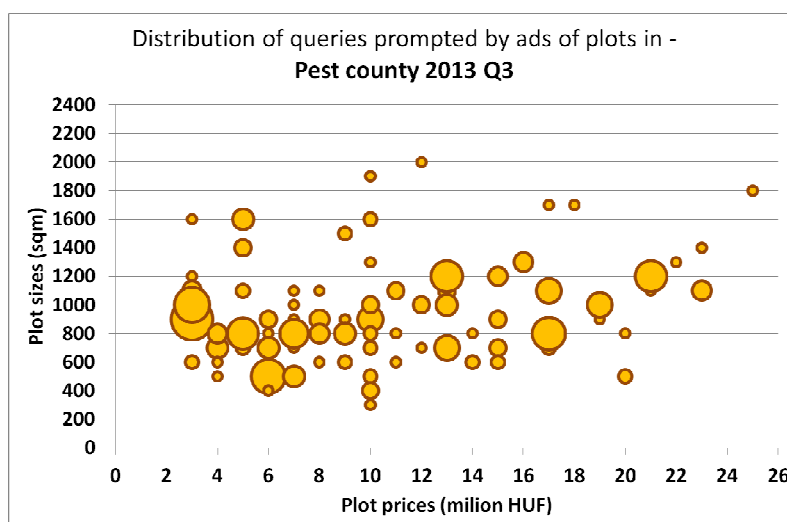


Source: Otthon Centrum

Pest County

In the agglomeration of the capital city, demand exists already for the cheaper construction plots in urban area, at 3 million, however, it is largely concentrated in the range between 5 and 10 million, even though plots of 13 and 17 million also attracted significant interest. As opposed to the situation in the capital city, very small was the demand for plots offered above 30 million in the third quarter. Within the popular value range, plots between 700 and 900 were the ones most looked for.

15 - Urban area construction plots searched for – Pest County, 3rd quarter of 2013



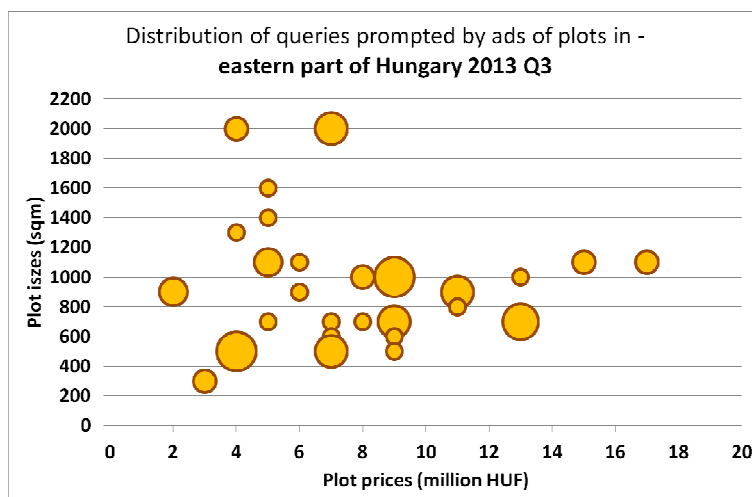
Source: Otthon Centrum

Regardless of prices, the largest number of queries arrived regarding plots of 800 and 900 sq. meters in Pest County. In the agglomeration, construction plots of 1000 or 1200 square meters were also very popular in the third quarter of the year.

Eastern Hungary

In the eastern counties of the country, the construction plots highest in demand were the ones offered at prices of 7 or 9 million forints, but substantial interest was generated by cheaper plots, priced at 4-5 million as well. We can draw an upper limit line at 20 million forints, above that, interest is sporadic. Most of the interest was generated, both within the popular price ranges and also independently from prices, by plots in the range of 500-700 square meters. Demand was lower, but substantial for plots at around 1000 and 1100 square meters as well.

16 - Urban area construction plots searched for – Eastern Hungary 3rd quarter of 2013

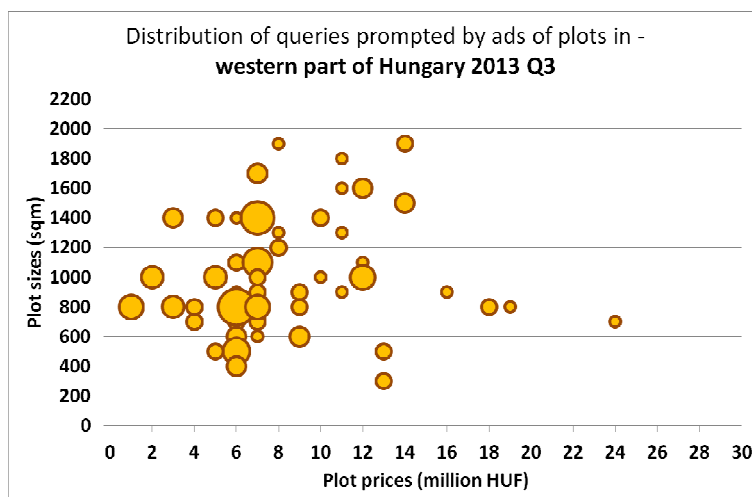


Source: Otthon Centrum

Western Hungary

In the western half of the country, the plots most looked for were the ones offered at a price of 7 million. Also the ones with price tags of 6 and 13 million were popular. Demand is concentrated on the range between 3 and 7 million, but important demand was generated also by plots of 12-13 million. Contrary to the case of the eastern counties, in the western half of the country, the upper limit can be set somewhat higher, at 28 million forints. Regardless of prices, construction plots of 800 square meters were the most popular ones. Larger plots, with 1000 or even 1400 square meters, also attracted important interest.

17 - Urban area construction plots searched for – Western Hungary 3rd quarter of 2013



Source: Otthon Centrum

LAND PRICES

In the table below, we present data of the sale and purchase transactions, administered via Otthon Centrum, in a couple of Budapest districts and in towns or villages of the countryside.

8 – Prices of plots in urban areas in some transactions during 3Q2013

Plot size (sqm)	Price	City, town or village
505	HUF 3,900,000	Budapest, District XVII - Rákosszaba
306	HUF 6,800,000	Budapest, District XII - Csillebérc
970	HUF 48,000,000	Budapest, District II - Remetékertváros
772	HUF 3,500,000	Nyíregyháza - Borbánya
899	HUF 14,842,000	Szeged - Újszeged
804	HUF 5,790,000	Tatabánya
1586	HUF 11,700,000	Sopron - Virág völgy
600	HUF 7,000,000	Győr - Ménfőcsanak
1072	HUF 5,500,000	Szigetszentmiklós
794	HUF 7,300,000	Érd
860	HUF 10,200,000	Pomáz

Source: Otthon Centrum

Igény szerint strukturált ingatlanpiaci tanulmány elkészítéséhez az alábbi elérhetőségeken léphet velünk kapcsolatba:

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