

RESIDENTIAL MARKET M O N I T O R

FIRST QUARTER OF 2015

WELCOME

DEAR READERS, DEAR PEERS,

In the first quarter of 2015, we can already declare with full conviction that the housing market is on a growth path, the lean years are over, the years of abundance are coming. The growth having started in 2014 held on in this year as well, even though the different segments of the market are developing at different rates, for the time being. We can observe a major boom in prices and the number of transactions in the case of homes suitable for investment, lease. Typically, these are brick-built homes in the inner districts in Budapest and the cities of the countryside, and in the capital city, the blockhouse flats of the popular housing estates. In the first case, we can see a price increase of 10-15 percent, in the latter case even in excess of that. In addition to investors, another decisive layer of buyers promoting recovery represent buyers having postponed their home purchase in previous years because of the poor economic environment and deteriorating expectations, who now are entering the market. These purchases do not bring an explosive increase, like speculative purchases do, as we can see that in the capital city on the market of family houses, but could serve as a basis for stable, sustained growth for several years. In the case of family houses, no real increase can be observed in the eastern counties and in the capital city as yet, but in the western counties and in the agglomeration of the capital, prices increased by more than 10 percent. Inexpensive loans also support stable growth and, from mid-2015, government subsidies are available also for the purchase of homes for resale, and that might have a stimulating effect in particular on the housing market of the countryside, providing a basis for recovery for several years, due to the large number of postponed purchases. In home construction, no breakthrough can be seen yet, but the evolution of the number of construction permits is already promising, with a 44 percent increase for the country and 300 percent in Budapest. The share of newly-built homes in total sales increased somewhat, but homes for resale continue to dominate there. Demand is there, but now the offer side should come up with newly-built homes, to refresh the range. For that, however, in addition to inexpensive financing, lower VAT rates are also a necessity.



Attila Déry
Otthon Centrum
Senior Analyst, MRICS



SUMMARY

RESIDENTIAL CONSTRUCTION

Recoil:

In the first quarter of 2015, the number of homes taken into use decreased by 7 percent, for the country and 2 percent in Budapest, as compared to the figures of one year ago. And with this, the increase seen at the beginning of last year, breaking a downward trend of a several years, came to a halt. Even though the decrease was not significant, it was coupled with very low volumes, given that the 1,572 homes completed in the whole of the country during the first quarter of this year represent only 15 percent of the 10,438 occupancy permits issued in 2007.

Both developers and households:

In the capital city, the number of occupancy permits decreased by 2 percent, in the cities and towns of the countryside by 9, in the villages by 8 percent in the first quarter of 2015, as compared to the same period of the previous year. The numbers of homes built for resale and the ones built for the owner's use dropped, which means that a rupture occurred not only in the expectations of property developers, but also in the expectations of the households.

Improving outlook:

For the future, a positive development is that at a country-wide level, there was no rupture in the increase in the number of construction permits – which is a good indicator for the expectations of the developers and also for the change in the number of occupancy permits –, the number of construction permits in the first three months of 2015 was 44 percent more than in the first quarter of 2014. In Budapest, the increase represents 300 percent.

FINANCING ENVIRONMENT

Further expansion in lending:

In the first three months of 2015, banks allocated to the households 57 billion forints more than a year ago, for new housing-purpose loans. This is 50 percent more than the amount of the new loans placed in the first quarter of 2014.

Inexpensive loans:

The decline in the APR is continuous from mid-2012, in the first three months of 2015, the indicator happened to be even already below 6 percent. All this means that the average cost of forint loans has already reached the average cost levels of the pre-crisis currency loans.

Persistent net loan repayer position:

Even though new loan placements show a promising picture, households were in the position of net loan repayer in the first three months of 2015, not only because of the conversion of the currency loans into forints.

HOUSING POLICY AND REGULATION

New subsidies:

The rules for subsidies to the construction and purchase of homes – under the new name: Family Home Creation Allowance (*Családi Otthonteremtési Kedvezmény*), abbreviated: CSOK – change from July 1, 2015, allowing the use of non-refundable assistance also for the purchase of homes for resale. Homes for resale make more than 90 percent of the market transactions, therefore, the assistance affects a huge segment. Subsidies might have a demand-boosting effect mainly in the smaller towns and villages in the countryside.

Conversion into forints:

The measures regarding the conversion of FX loans into forints do not have a direct effect on the housing market turnover, but theoretically, two indirect effects are possible. Some sellers might withdraw from the sale due to the reduction of the instalments, reducing demand by the same. But the decrease in debts may have an opposite effect as well, because for sellers it is easier to repay a smaller debt from the proceeds of the sale.

Defaulted loans:

The high, above 20%, ratio of non-performing loans also means that the number of properties the banks intend to recover their claims from is very significant, in excess of a hundred thousand homes. For the time being, these properties do not represent a danger for the prices and for growth, provided that banks go on with the present practice and sell properties only in numbers that are adequate to the market's absorption capacity. But this also means that the cleaning of the banks' portfolios from such properties might take even several years.

MARKET OF NEWLY-BUILT HOMES

Slight improvement:

According to the experience of Otthon Centrum, in the first quarter of 2015, the number of newly-built homes already increased, with newly-built homes representing 1-2 percentage points higher shares

in total sales, compared to the same period of last year. According to the data of KSH, the share of newly-built homes was 3 percent for the whole of the country, 4.3 in Budapest in the first quarter of 2014.

Supply-side constraints:

In the first half of 2015, for almost 95% of the people looking for a home it is irrelevant whether the legal status of that property is "new" or "already used". But as to the remainder, both in Budapest and in the countryside, the ratio of those who are looking explicitly for newly-built homes is around 10 percent. When we compare this with the share of newly-built homes in total sales, we can see that there is demand for newly-built homes, but due to the static, pre-picked housing stock, transactions are rare to be realised.

MARKET OF HOMES FROM OWNERS

Explosion in sales:

The expansion rate exceeding 20 percent in 2014 in the number of sale and purchase transactions persisted in the first quarter of 2015 as well, and to some extent, it even increased. According to our forecast, this year, the market turnover might be close to the level of year 2008. Behind the expansion of demand, there are two main drivers: purchases for investment or for an owner-occupied home, making the upswing a two-speed process to some extent.

Bargain below 10 percent:

In the first quarter of 2015, the average price allowance granted by sellers continued to decrease. From the top level of the first quarter of 2013, total price-cutting dropped below 10 percent only this year. As compared to the same period of last year, the playing field for buyers is 2.5 percentage points smaller now, on average. The drop in the offer prices is much larger than the decreased in price bargain when the contract is concluded, that is, sellers make less changes in the offer price until the arrival of the actual buyer.

Faster selling:

This major expansion in demand can be observed also in the shortening of selling times. In the case of the block homes, time required for selling was less than 2 months in the first three months of 2015, that is, one month less than in 2014. In the case of brick-built homes for sale by the owner, the average selling times dropped by one-third of a month, to below four months. In the case of family houses, we can state rather stagnation in practice.

MARKET OF RENTED HOMES

Rise in the rentals:

Rentals increased substantially in the first quarter of 2015, in the case of brick-built homes in the capital city, to an outstanding extent. In the western counties as well, rentals of brick-built homes increased, in the eastern half of the country, stagnation is

experienced. Rentals of block-built homes increased at far more moderate rates, both in Budapest and in the countryside.

Yields:

In the case of properties purchased for the purpose of lease, over an investment period of 10 years, the yields achievable are in the range of 6-8 percent.

LAND MARKET

Land prices:

In the first three months of this year, plot prices in Budapest were around HUF 26,000 per square meter, that is, the plot prices did not change significantly as compared to the end of 2014. In the agglomeration around the capital city, the average price was HUF 9,500 per square meter. In the cities of the countryside, the average plot price per square meter lagged behind only by a few thousand forints.

Plots in demand:

In Budapest, demand is highest for plots of 28-30 million forints, 1000 square meters, in Pest County, for those of 5-6 million, 800-900 square meters. Both in the eastern and western halves of the country, demand is concentrated on plots at 3 and 7 million forints. In the East, plots of 1500, in the West, the ones of 700 square meters attracted the most interest.



RESIDENTIAL CONSTRUCTION

KEY FINDINGS

Recoil:

In the first quarter of 2015, the number of homes taken into use decreased by 7 percent, for the country and 2 percent in Budapest, as compared to the figures of one year ago. And with this, the increase seen at the beginning of last year, breaking a downward trend of a several years, came to a halt. Even though the decrease was not significant, it was coupled with very low volumes, given that the 1,572 homes completed in the whole of the country during the first quarter of this year represent only 15 percent of the 10,438 occupancy permits issued in 2007.

Both developers and households:

In the capital city, the number of occupancy permits decreased by 2 percent, in the cities and towns of the countryside by 9, in the villages by 8 percent in the first quarter of 2015, as compared to the same period of the previous year. The numbers of homes built for resale and the ones built for the owner's use dropped, which means that a rupture occurred not only in the expectations of property developers, but also in the expectations of the households.

Improving outlook:

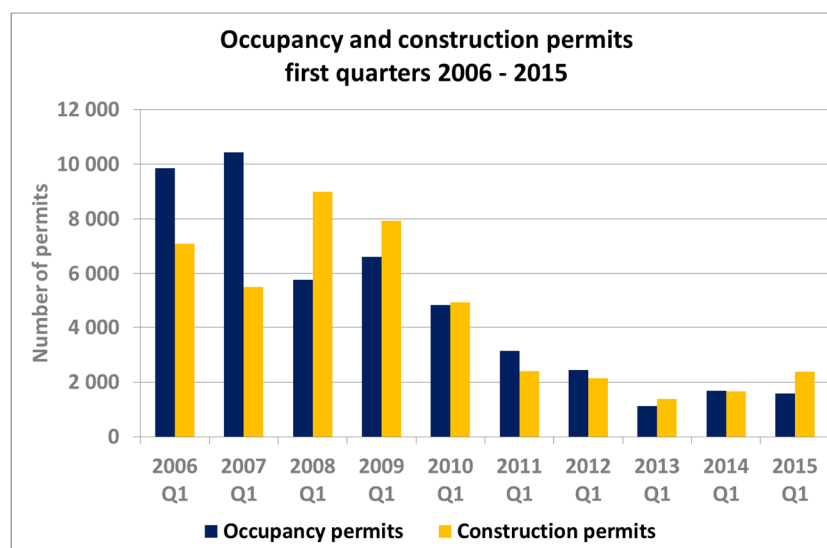
For the future, a positive development is that at a country-wide level, there was no rupture in the increase in the number of construction permits – which is a good indicator for the expectations of the developers and also for the change in the number of occupancy permits –, the number of construction permits in the first three months of 2015 was 44 percent more than in the first quarter of 2014. In Budapest, the increase represents 300 percent.

In the first quarter of 2015, the number of homes taken into use decreased by 7 percent, for the country and 2 percent in Budapest, as compared to the figures of one year ago. With this, the increase seen at the beginning of last year, breaking a downward trend of a several years, came to a halt. In the first three months of this year, the decline was not substantial, the number of the occupancy permits did not fall back to the low recorded in the first quarter of 2013, but for the time being the positive attitude observable in other

areas of the property market since 2014 cannot be seen in the number of completed homes. Even though in 2014, housing construction expanded by 14 percent after the nadir of 2013, this growth trend did not continue into 2015. This was coupled with very low volumes, given that the 1,572 homes completed in the whole of the country during the first quarter of this year represent only 15 percent of the 10,438 occupancy permits issued in the first quarter of 2007.

The evolution of the number of construction permits gives more reason for optimism, in particular, for the future, because this is a good forecast indicator on the developers' expectations and on the evolution of occupancy. As compared to the first quarter of 2014, the number of construction permits issued in the first three months of 2015 shows an increase of 44 percent, that is, the increase started in the number of construction permits remained steady. The 2,381 construction permits make only one-fourth of the top level reached in the first quarter of 2008, but after the 27 percent increase seen from 2013 to 2014, this is an even more important growth than between the first quarters of 2014 and 2015.

1 - Main indicators of home construction in Hungary



Source: KSH (Central Statistical Office)

Even if it is difficult to give a forecast for the whole year based on first-quarter data, we will see a trend change in the number of homes built probably in 2016 only. In 2015 again, the number of completed homes might remain below 10,000, but we shall not forget that the decision about the construction of homes occupied in the first quarter of 2015 must have been made already in early 2014 or by the end of 2013, when prospects for the economy or the housing market were not as favourable as now.

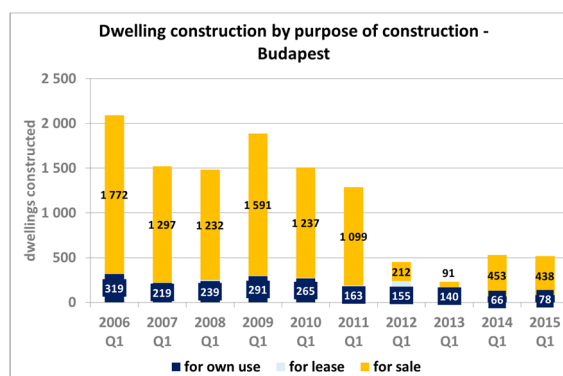
We keep stressing that the lag in home construction poses a problem not because of some quantitative shortage of homes. For the whole of the country, the number of inhabitants per 100 homes dropped from 269 persons in 2001 to 224 persons in 2014, that is, there are less and less persons per home. A shortfall might rather appear on the quality side, given that the number of homes expected to be built in 2015 represents less than 3 thousandth of the 4.4 million homes in 2014. This means that, at the present rates, the stock could be fully renewed in 300 years from now. Renewal should be at least three times that fast, even if we take into accounts also homes that are upgradable at reasonable costs. Therefore, newly-built homes mean quality upgrade for the existing stock of real estate and if this does not take place, it will mean a problem in the long run.

REGIONAL OVERVIEW

In the capital city, the number of occupancy permits decreased by 2 percent in the first quarter of 2015, as compared to the same period of the previous year. The number of homes built for own use increased by 18 percent and the number of homes built for sale decreased by 3 percent. The resultant of these two developments is a 2 percent decrease, representing rather stagnation, which means that property developers did not wake up yet from their state of hibernation. At the same time, the number of the construction permits shows a far more advantageous picture, given that the number of 720 construction permits issued in the first three months of 2015 means a 300 percent increase over one year. Even though the basis is very low, this kind of a jump reflects a major improvement in the expectations of the developers. A certain role must have been played in this increase by the FGS (funding for growth scheme) programme. This issue is dealt with in the chapter on the regulatory environment, in detail.

In the first quarter of 2015, for sale, 438 homes were completed in Budapest, and that is only slightly inferior to the same period of last year, but represents only less than one-third of the pre-crisis level. This also shows that the increase that started one year ago remained very fragile, in many cases influenced by one-off effects, such as the completion of some large project. Homes built for the purpose of sale represent again 84 percent in the number of total completed homes, like it used to be typical in the years before 2009.

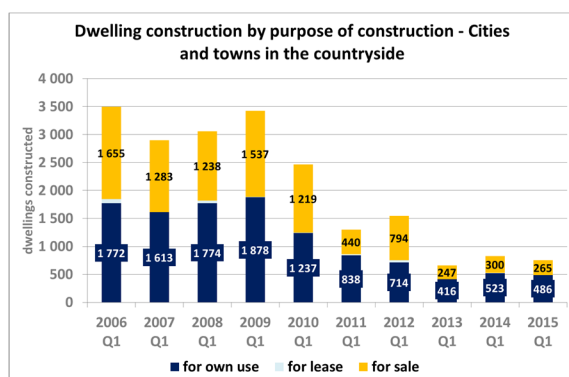
2 - Breakdown by construction purpose in home construction - Budapest



Source: KSH (Central Statistical Office)

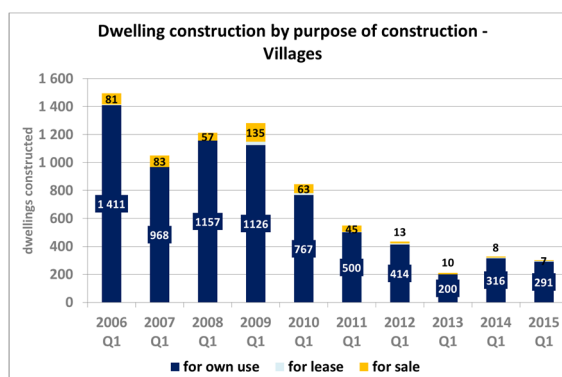
In the cities and towns of the countryside, the number of homes built for own use dropped, in line with the average for the whole of the country, by 7 percent in the first quarter of 2015, whilst the number of homes built for sale dropped by 12 percent as compared to the same period of the previous year. In the villages, an 8 percent decrease can be observed. Here, the homes built are almost exclusively for own use, therefore, this drop means that a rupture occurred not only in the expectations of property developers, but also in the expectations of the households. In terms of the number of construction permits, an increase of 14 percent can be observed in the number of construction permits both in the eastern counties and in Transdanubia.

3 - Breakdown by construction purpose in home construction - cities and towns



Source: KSH (Central Statistical Office)

4 - Breakdown by construction purpose in home construction - villages



Source: KSH (Central Statistical Office)



FINANCING ENVIRONMENT

KEY FINDINGS

Further expansion in lending:

In the first three months of 2015, banks allocated to the households 57 billion forints more than a year ago, for new housing-purpose loans. This is 50 percent more than the amount of the new loans placed in the first quarter of 2014.

Inexpensive loans:

The decline in the APR is continuous from mid-2012, in the first three months of 2015, the indicator happened to be even already below 6 percent. All this means that the average cost of forint loans has already reached the average cost levels of the pre-crisis currency loans.

Persistent net loan repayer position:

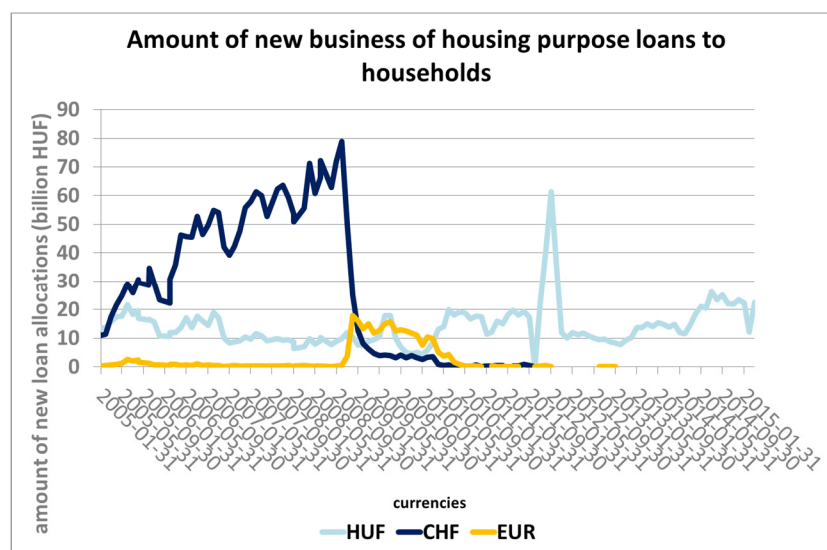
Even though new loan placements show a promising picture, households were in the position of net loan repayer in the first three months of 2015, not only because of the conversion of the currency loans into forints.

The stock of housing loans of the retail customers was 3,109 billion in March 2015. Upon the effect of the conversion into forints, the stock of foreign currency loans recorded in forints dropped from the February 2015 figure of 1,843 billion to below 50 billion, whilst the February stock of forint loans, 1,593 billion, increased almost twofold, to 3,052 billion. According to MNB data, without seasonal adjustment the loan stock decreased by 27.4 billion forints in January this year, as a result of transactions, with a 37.0 billion forints decrease in currency loans and a 9.7 billion forint increase in forint loans. In February, without seasonal adjustment, the loan stock decreased by another 43.6 billion forints, coming from a 45.4 billion forints decrease in FX loans and a 1.8 billion forint increase in forint loans. That is, in the first two months of the year, households remained net loan repayers and in February, the amount of the new housing-purpose loans was also explicitly low. The month of March also shows basically a net debt repayer position, in this month, however, due to the conversion of debt into forints, the volume increased substantially: without seasonal adjustment, the transaction-based reduction of the households' loan

stock was 680.4 billion forints. This is due to a 3437.7 billion forints decrease in currency loans and a 2757.3 billion forint increase in forint loans.

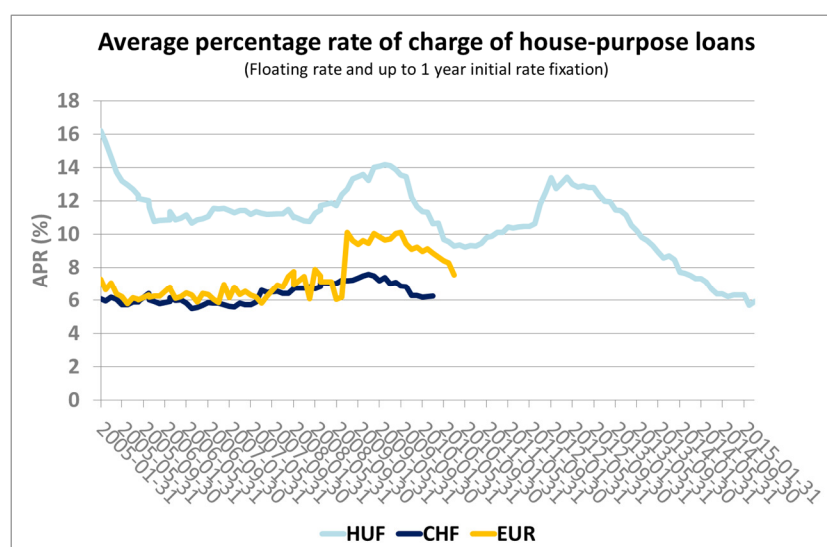
In the first three months of 2015, banks allocated to the households 57 billion forints more than a year ago, for new housing-purpose loans. This is 50 percent more than the amount of the new loans placed in the first quarter of 2014. In the first three months, banks placed a monthly average of 19 billion forints in loans, which is only one billion less than the monthly average of 20 billion for last year. In a comparison with the last quarter of the previous year, the performance of the first three months was 15 percent lower, but at the beginning of the year, lending activity is traditionally low-key, as it can be seen in the February figure. The amount of new loan allocations is still very far from the pre-crisis level, but a perceptible shift occurred from the 2013 deadlock. Hence, even if no significant progress can be seen as compared to 2014, with the recovery of the housing market and an improvement in the expectations of the households, further expansion is expected in lending.

5 – Amount of retail loan allocations for housing purpose



Source: MNB (National Bank of Hungary, NBH)

6 – APR of the housing loans to households



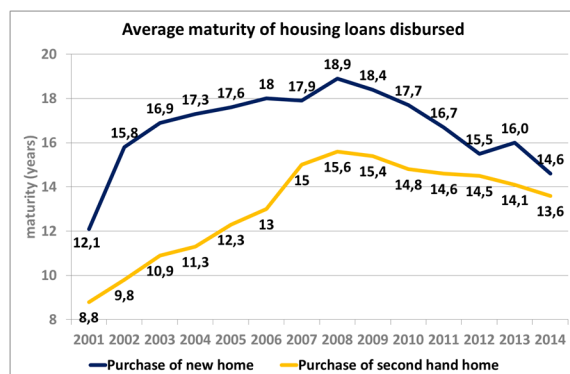
Source: MNB (National Bank of Hungary, NBH)

The decline in the APR is continuous from mid-2012, in the first three months of 2015, the indicator went even below 6 percent already. All this means that the average cost of forint loans has already reached the average cost levels of the pre-crisis currency loans. The less and less expensive loans are key also from the point of view of the housing market, given that cheap financing can give a major boost to demand. A level below 6 percent also means that the APR is already lower than the minimum 6 percent interest on government-subsidised loans, presently in effect. With further lowering of the central bank's prime rate, the APR of housing loans may remain on a continuously downward path.

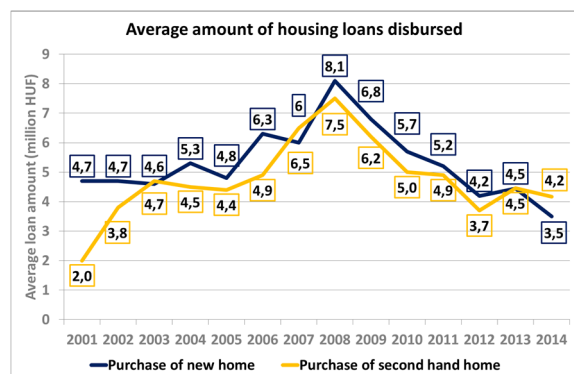
According to KSH data, the average amount of housing loans in 2014 was 4.2 million forints in the case of homes for resale, slightly less than the average for 2013. Even though the volume of new loans increased significantly from 2013 to 2014, an improvement in the expectations of the households shows itself only in the number of new borrowings for the time being, the loan amounts did not increase as yet. The decline in the average amount of the loans for newly-built homes was more important, but the number of such loans is very low, because within total sales of homes, the newhome-sales have a very small share too.

The average maturity shortened further in the case of homes for resale, according to KSH data, the average maturity of housing loans was below 14 years in 2014. According to the experiences of Otthon Centrum Hite Center, parallel to a shortening of the maturities, the loans with longer interest rate periods became increasingly popular, where the borrowers would like to fix the presently low interest rate levels for 5-10 years.

7 - Average term of the disbursed housing-purpose loans



8 - Average amount of the disbursed housing-purpose loans



Source: KSH (Central Statistical Office)

According to a survey of MNB, in the first half 2015, in the case of housing loans 35 percent of the banks planned to tighten their lending terms. The most important tightening measures shall concern the maximum amount of instalments, depending on income, meaning the implementation of the new legislative provisions ("debt-brake") in the bank's conditions list.

Based on MNB's forecast prepared in 2014, the households will still be in the position of net loan repayers even in 2016. But this picture may be further tinged due to a surge of the housing market, the improvement of the expectations of households, the continuously declining loan costs, as each of these might strengthen loan allocations. Subsequent to the conversion of the loans into forints, stimulus for loan repayment might be the emergence of properties on the market that could not be sold earlier by their owners, due to the existing high debts. However, the coming to the market of such properties will probably be extended over a certain time and we cannot exclude that the sellers will make use of another loan for the purchase of the next property. A surge in lending, an increase in the banks' willingness to allocate loans is badly needed for the housing market. Due to the postponed purchases of previous years, many buyers will enter the market in the near future, and they will need easily accessible and cheap loans.



HOUSING POLICY AND REGULATION

KEY FINDINGS

New subsidies:

The rules for subsidies to the construction and purchase of homes – under the new name: Family Home Creation Allowance (*Családi Otthonteremtési Kedvezmény*), abbreviated: CSOK – change from July 1, 2015, allowing the use of non-refundable assistance also for the purchase of homes for resale. Homes for resale make more than 90 percent of the market transactions, therefore, the assistance affects a huge segment. Subsidies might have a demand-boosting effect mainly in the smaller towns and villages in the countryside.

Conversion into forints:

The measures regarding the conversion of FX loans into forints do not have a direct effect on the housing market turnover, but theoretically, two indirect effects are possible. Some sellers might withdraw from the sale due to the reduction of the instalments, reducing demand by the same. But the decrease in debts may have an opposite effect as well, because for sellers it is easier to repay a smaller debt from the proceeds of the sale.

Defaulted loans:

The high, above 20%, ratio of non-performing loans also means that the number of properties the banks intend to recover their claims from is very significant, in excess of a hundred thousand homes. For the time being, these properties do not represent a danger for the prices and for growth, provided that banks go on with the present practice and sell properties only in numbers that are adequate to the market's absorption capacity. But this also means that the cleaning of the banks' portfolios from such properties might take even several years.

The new elements of the regulatory environment may bring direct and indirect changes to the housing market in 2015 and also in the following years. The housing market clearly entered a growth path, the signs thereof are evident from the indicators for the first quarter. The rates of the increase are different by regions of the country and types of property, therefore it is key that the assistance and regulatory system operating on the housing market shall be able to stabilise this growth for long years and to narrow the gap between the discrepant rates of recovery in the regions. First of all targeted demand-

boosting measures able to achieve this, but we shall not forget about the spillover effect of the measures designed for providing help to currency loan debtors either.

GOVERNMENT PROGRAMS TO BOOST DEMAND

The government's demand-boosting programs have a direct influence on the evolution of demand on the housing market. Parallel to the already operating interest-rate subsidy system, the scheme of non-refundable assistance will also change from the middle of the year. The rules for subsidies to the construction and purchase of homes, under their new name: Family Home Creation Allowance, abbreviated: CSOK, change from July 1, 2015, allowing the use of non-refundable assistance also for the purchase of homes for resale. Non-refundable assistance was available for newly-built homes already earlier, but in practice, it did not live up to the expectations. The reason for that is the very narrow choice in terms of new homes and the minimal demand resulting therefrom.

Homes for resale make more than 90 percent of the market transactions, therefore, the assistance affects a huge segment. This also means that the demand-boosting effect of the assistance might prevail better on the market. Like in the case of new homes, assistance is subject to conditions. The price per square meter of the eligible homes for resale shall not exceed HUF 350,000 and the maximum purchase price set by regions and types of the locations.

1 – Maximum purchase price in the case of a home for resale, CSOK

	Central Hungary	West	East
county-seat	(Budapest) 35 million HUF	28 million HUF	25 million HUF
city	28 million HUF	23 million HUF	19 million HUF
other locations	23 million HUF	18 million HUF	16 million HUF

Assistance depends on the size of the home and the number of children in the family, within the range of 0.5 and 2.5 million forints.

2 – Amount of grants, CSOK

number of children	size (sqm)	subsidy amount	size (sqm)	subsidy amount	size (sqm)	subsidy amount
1	40-55	500,000 HUF	55+	600,000 HUF	-	-
2	50-65	800,000 HUF	65-80	1,000,000 HUF	80+	1,300,000 HUF
3	60-75	1,200,000 HUF	75-90	1,500,000 HUF	90+	2,000,000 HUF
4 or more	70-85	1,600,000 HUF	85-100	2,000,000 HUF	100+	2,500,000 HUF

Taking into consideration the sizes of homes specified for the different subvention amounts, it is clear that the limit is in certain cases the price of 350,000 forints per square meter, in other cases, the maximum purchase price. In the capital city, the maximum purchase price of 35 million for a 40 square meters home means a price of 875,000 per square meter and, even if it is possible to buy properties at that price, the subsidy applies only to homes priced at 350,000 per square meter, valued at 14 million forints, as a maximum. In the case of the 100 square meters house in a small village in the East, the limitation at 350,000 forints per square meter would mean a purchase price of 35 million, but because of the 16 million limitation, only the much cheaper properties are subsidised, up to 160,000 forints per square meter. In practice, however, both the maximum purchase price and the price per square meter at 350,000 forints are within the range of the average values, therefore, a large portion of the offer will be available using CSOK.

A positive effect might be expected most of all in the case of smaller settlements, where the rebound is yet to come. In Budapest, roughly two-thirds of the properties for resale, whilst in the rest of the country, almost the whole of the offer side meets these provisions on prices.

3 – Share of properties meeting the requirements of CSOK, in total offer, 2015 Based on sales in 1Q

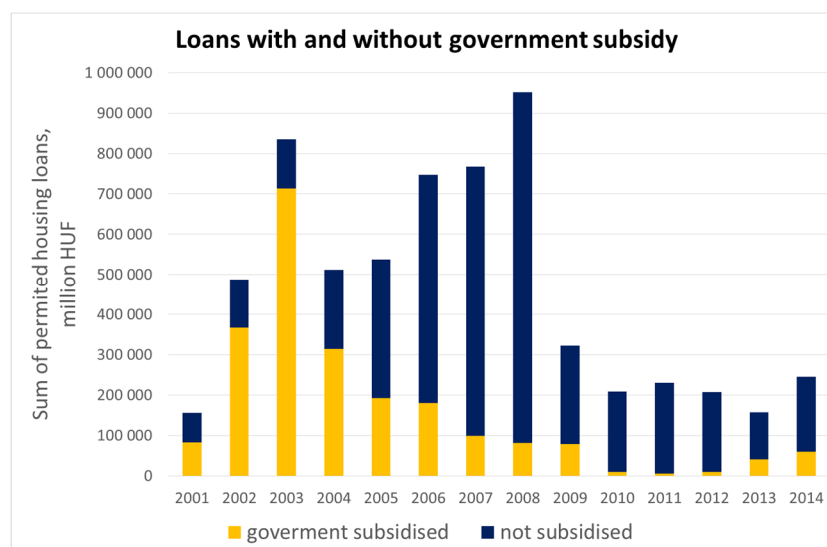
	1 child, 1.5-2 rooms, 40-45 sqm	2 children, 2-3 rooms, 65-70 sqm	3 children, 3-4 rooms, 80-90 sqm	4 children, 4-5 rooms, 100-110 sqm
Budapest	66%	66%	66%	66%
East	100%	100%	100%	100%
West	80%	90%	100%	100%

Source: Otthon Centrum

In Budapest, not only the offer eligible for CSOK is limited, but because of the relatively higher real estate prices, the amount of the subvention is also lower compared to the property's purchase price. In the countryside, especially in small towns and villages assistance represents a larger portion of the total purchase price, as prices per square meter are relatively low. This also means that subsidies might have a demand-boosting effect mainly in the smaller settlements of the countryside. This is also highly needed, because in 2014 and in the first quarter of 2015, mainly in the capital city and in the larger cities of the countryside, the real estate market recovered, in the smaller settlements, the increase was much more moderate until now. In the major cities, a significant demand of the investors was also present, where the use of grants is not characteristic. This investor demand played a role in boosting the market in those recovering areas, already mentioned. In the smaller towns and villages of the countryside, this subsidy might make up for this demand-boosting effect. Due to the higher-than-average limitation in terms of square meters, the system has some flexibility with regard to future price increases on the market.

The government's subsidised interest rate scheme is still active, but it seems to be losing its importance. According to data of KSH, from 2013 to 2014, within granted housing loans the volume of non-subsidised loans increased by 60 percent, and the volume of government-subsidised loans by only 48 percent. This means that the government's interest-rate subsidy plays a role in the revitalisation of the housing market, but to a decreasing extent. Whilst in 2013, out of the loans granted, 26 percent was the share of the ones with government subsidy, but in 2014, their share was merely 24 percent.

9 – Share of the subsidised and market-type, new, approved, housing-purpose loans



Source: KSH (Central Statistical Office)

The reason behind the drop in popularity of the government-subsidised loans is that due to the drop in the central bank's prime rate, the interest levels of the housing loans also continuously declined and so, in many cases, these market-rate loans offer more favourable conditions than the government-subsidised schemes. Low popularity is explained also by the fact that the subsidy is not valid for the whole term, that is, when the subsidised period is over, the debtor shall pay higher instalments. Predictability is very important for clients, so the loans with long, 5-10 years interest rate periods are increasingly popular. With these, the government's interest rate subsidy schemes cannot really compete.

In 2014, according to data of KSH, the average amount of government-subsidised loans was 5.5 million forints, as opposed to an average of 4.3 million in non-subsidised loans. Compared to 2013, both of these average amounts increased, by 500,000 forints in the case of subsidised loans, by 700,000 forints for the non-subsidised ones.

In 2015, the duty payment rules relating to the purchase of homes are also amended. According to the regulation in effect, when a buyer who is a private individual sells his/her other residential property not more than one year prior to or after the purchase of a home, the basis for the duty is the difference between the market values of the bought and sold properties – without deducting charges (the rule of purchase-instead-of-exchange). In accordance with the rules applicable until December 31, 2014, where the sale took place within one year after the purchase, then the buyer was obliged to pay the duty established for the purchased home and had a possibility to apply for a refund from the amount of the duty, for the differential between the two market values, i.e. the portion of the excess of the duty. According to an amendment in force from January 1, 2015, if a private individual makes a statement, at the latest by the date of reporting that purchase for charging a duty, declaring that within a year, the other home owned will be sold, and requesting the state tax authority to establish that duty on the acquisition on the basis of the rules applicable to a 'purchase-instead-of-exchange', where the state tax authority establishes the market value of the purchased home, but without communicating this decision, the duty-levying procedure becomes suspended.

If the buyer certifies the sale of another residential property within one year after the purchase of a home, the state tax authority, under the suspended procedure, determines the amount of the duty payable based on the difference between the market values of the purchased and sold homes. In a case where the buyer does not certify that the previous home was sold within one year, the duty is based on the market value of the purchased home, furthermore, an additional duty is established by the tax authority on the amount of the duty, equal to the double of the central bank's prime rate for the period since the filing of the buyer's statement.

This modification of the duty payment rules will not bring a change on its own to the residential market; actually, it only makes life a bit easier for buyers planning or performing a purchase.

PROGRAMS TO SUPPORT CURRENCY LOAN DEBTORS

In replacement of previous programmes designed to assist currency loan debtors, a comprehensive solution came into being in 2014, whereas currency loans were converted into forints and significant reimbursements were given to the debtors. Basically, the measures apply to the forint- and currency-denominated loans, as well as lease contracts signed between May 1, 2004 and July 26, 2014. Subsidised housing loans, credit card debt and overdrafts represent an exception. The conversion into forints was carried out at predetermined exchange rates, with 256.5 forints in the case of Swiss franc, 309 forints for the euro and 2.16 forints for Japanese yen. The reimbursements covered the exchange rate gaps, as well as any increases in interests and fees from the start of the loan.

According to the provisions, loan disbursement and redemption shall be converted at the medium exchange rate of MNB (NBH).

The removal of the foreign currency loans affected also debtors who joined earlier the exchange rate fixing scheme. From now on, no new contract can be concluded for exchange rate fixing and, together with the crediting operations, the existing collection accounts are also terminated. As to customers under the exchange rate fixing, the banks have to set-off overdue debts against overpayments, followed by the collection accounts related to the exchange rate fixing and, if any overpayment amount remains, it shall be accounted for as a prepayment of the initial currency loan. The allowance granted by the bank is deducted in the framework of the settlement, as to the allowance from the state, customers retain it.

The measures regarding the conversion into forints do not have a direct effect on the housing market turnover, but because of the reimbursements, the payable instalments, as well as the outstanding debts decreased. In theory, households offering their home on the market only because of their payment difficulties might withdraw from the sale now, because of the reduction in the instalments induced by the package, from where the offer side pressure on the prices could diminish. However, this effect will probably remain only theoretical, because earlier, the exchange rate fixing scheme was expected to lead to the same result, but in reality no such impact emerged. Identification of the offer-reducing impact will be more difficult now because of the boom on the market and also, expansion in demand reduces oversupply on its own. At the same time, the decrease in outstanding debts have an exactly opposite effect in the case of debtors who have been already considering the sale of their property, but the debt repayable to the bank was too large in a comparison with the amount expectable from the sale. They can now enter the market and this can be further supported by the increase in housing prices, since a higher selling price means more funds left at the sellers after the repayment of their debts to the bank. The continuous price increase ahead of us is the reason why this effect might be prolonged, because the later the debtors sell their home, the higher will be the price they can achieve via the price rise, that is, the more funds they will have subsequent to the repayment of their debts.

OTHER CHANGES IN THE REGULATION

An important change is that within the framework of the Funding for Growth Scheme (FGS), the loan purpose can be not only residential development for the purpose of lease, but also home construction for the purpose of sale can be financed. According to MNB information, until May 29, 2015, credit institutions participating in the second phase of FGS disbursed HUF 571.1 bn. Already prior to the entering into force of the rules for financing homes built for lease, in the framework of FGS, construction companies obtained 43 billion forints and property firms 62 billion.

Taking into account that only a negligible number of residential properties are built for the purpose of lease, the inclusion of home construction for the purpose of sale into the scope of fundable operations may provide a cheap tool in financing for a larger portion of residential developers. Further on, contracts can be signed until the end of 2015, but the strike deadline was extended until December 31, 2016, allowing also investment projects to be completed by the end of next year to make use of FGS funding. Cheap financing can actually help residential property developers, but this is not the only key for boosting home construction projects. The high VAT rate also significantly deteriorates return for developers, therefore, cheap financing is unable to boost residential development projects on its own. The improving economic environment and the demand getting strength already brought some positive changes. The significant increase in the number of construction permits in the capital city might be attributable to this, as well as to the changes in the FGS rules. For a breakthrough, however, a reduction of VAT rates would be also required.

The debt-brake rule introduced by MNB came into effect last January. The rule consists of two elements. The income-based repayment indicator (IBR) determines the maximum repayment burdens allowable as a percentage of the regular, legal income of the loan applicants. The loan-to-value ratio (LTV) restricts the size of allowable loans in the case of secured loans (such as mortgage loans), depending on the coverage (value of the home). In the case of new forint loans taken after January 1, 2015, the instalment to income ratio shall not exceed 50%, and in the case of high-income customers (i.e. 400,000 forints of net income or above), 60%. In the case of mortgage-based housing loans, the loan-to-value indicator is 80% for forint-based loans, that is, the loan amount cannot exceed 80 percent of the home's value.

Judging by the number of the new loan allocations, one cannot sense that the new rules would have a dampening effect on the market. As the market is climbing up from very low levels, the effect of the low basis is important, but the upturn on the housing market shows itself in the willingness to borrow. Of course, in the absence of comparable data, it is impossible to tell whether or not the market would be expanding at the observed rate also without the new rule set, or the rules have a retarding effect. In a comparison with the previous lending practice, the more important change is the introduction of the income-based repayment indicator. For credit assessment, banks always considered the freely available income of a loan applicant, but the new rules limit the scope of the eligible income. This affects most of all those who have income flows not only from employment – typically, the entrepreneurs. According to the rules, only certified, legal net income (wage, pension, family allowance etc.) shall be counted as available income.

There may be differences between banks in terms of what kind of income they take into consideration and to what extent. The differences can be illustrated clearly based on the example of a four-member family. In the example family, we have two children and two wage-earners, both parents are entrepreneurs. The family would like to buy a family house of 60 million forints in the western agglomeration of the capital city. Both parents work in their own undertakings, and they are registered with the guaranteed wage minimum. This means that they obtain, per capita, 79,910 forints per month, in the form of wage. In addition to that, in our example, they can receive, each of them, dividends from their companies paying tax under the Simplified Entrepreneurship Tax (*Egyszerűsített Vállalkozási Adó, EVA*), that is, they have an average net revenue of 250,000 and 350,000 forints each month, in addition to wage. So, the family together can certify a total income of HUF 159,820 from employment, but taking into account the dividend from EVA as well, their certifiable monthly income is HUF 759,820. The proportion of EVA income taken into account for credit assessment may be different at each bank.

Bank offer	Income taken into account	Approximate maximum loan amount	Loan amount per the home value
A	159,820 HUF	11,000,000 HUF	18.33%
B	361,420 HUF	25,000,000 HUF	41.67%
C	459,820 HUF	32,000,000 HUF	53.33%
D	579,820 HUF	43,000,000 HUF	71.67%

Source: Otthon Centrum Hitel Center

A fictitious example, prepared on the basis of actual bank offers, assuming a maturity of 240 months. The calculation examines only income, all other criteria (such as type of the property, its condition, as well as its location, age, workplace etc.) are neglected.

The debt-brake system helps to stop overindebtedness, even though at present, new loan allocations are still far from the pre-crisis levels. For the time being it seems that those rules do not obstruct an upswing in lending, but it is important that in the future as well, the system shall operate in a way where in addition to the prevention of excessive lending, it shall assist a healthy expansion in mortgage loans in each retail segment.

NON-PERFORMING LOANS

According to MNB data, at the end of 2014, the number of non-performing mortgage loans of households was 182,400, on the whole of the market. Their volume represents altogether 1455.9 billion forints. Within the total stock of mortgage loans, this represents a share of 24.4%, that is, every fourth loan shows a debt overdue since more than 90 days. Considering only the credit institutions – excluding financial undertakings, receivables management – the share of non-performing loans is 20.1 percent, which is an explicitly high figure.

Given that the collateral behind the retail mortgage loans are typically residential properties, this high ratio of non-performing loans also means that the number of properties the banks intend to recover their claims from is very important, in excess of a hundred thousand homes. Until 2014, the quota system was designed to prevent that banks apply forced sales and put a significant volume of residential property onto the market, provoking a significant oversupply. Actually, the volume of properties behind the defaulted loans is, should these come to the market within a short time, significant enough to cool down the boost in demand that just started, whilst putting a significant pressure on prices. Experiences of the past years and the utilisation level of the quota system suggest that the banks tend to prefer open market sales rather than forced sales, because of the better indicators of return. The appearance on the market of these properties simultaneously and speedily is not in the interest of the banks either, because a decrease in real estate prices would also decrease the value of properties serving as collateral for the still performing loans.

4 – Non-performing loans (payments overdue for 90 days or more) – 4Q2014

	Credit institutions			Financial undertakings			Complete financial intermediation system		
	Volume (HUF bn)	Its share (%)	Contract ('000 pc)	Volume (HUF bn)	Its share (%)	Contract ('000 pc)	Volume (HUF bn)	Its share (%)	Contract ('000 pc)
Housing-purpose	467.5	14.0%	56.8	274.8	79.2%	42.9	742.3	20.2%	99.7
Unrestricted	627.6	29.7%	76.2	86	51.8%	6.4	713.6	31.4%	82.7
Total	1095.1	20.1%	133	360.8	70.3%	49.4	1455.9	24.4%	182.4

Source: MNB (National Bank of Hungary, NBH)

In the case of the financial undertakings, the reason for the high share of non-performing loans is that the collection agencies are part of the sector.

Hence, the properties behind the significant volume of defaulted loans do not represent a danger for the prices and for growth, provided that banks go on with the present practice and sell properties only in numbers that are adequate to the market's absorption capacity. But this also means that the cleaning of the banks' portfolios from such properties will take several years. However, parallel to the development of the market, expansion of demand, the absorption also improves, that is, portfolio cleaning may be faster.



MARKET OF NEWLY-BUILT HOMES

KEY FINDINGS

Slight improvement:

According to the experience of Otthon Centrum, in the first quarter of 2015, the number of newly-built homes already increased, with newly-built homes representing 1-2 percentage points higher shares in total sales, compared to the same period of last year. According to the data of KSH, the share of newly-built homes was 3 percent for the whole of the country, 4.3 in Budapest in the first quarter of 2014.

Supply-side constraints:

In the first half of 2015, for almost 95% of the people looking for a home it is irrelevant whether the legal status of that property is "new" or "already used". But as to the remainder, both in Budapest and in the countryside, the ratio of those who are looking explicitly for newly-built homes is around 10 percent. When we compare this with the share of newly-built homes in total sales, we can see that there is demand for newly-built homes, but due to the static, pre-picked housing stock, transactions are rare to be realised.

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 homes from their owners. 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.

Our findings regarding the market of newly-built homes are based on data from KSH and the database of the Otthon Centrum project. This database contains data of newly-built homes and projects offered for sale, with semi-annual updates, retrospectively to 2005. Hence, it contains the number of sales transactions, the unsold stock and the other characteristics of homes.

Some revival is visible on the market of newly-built homes in the first quarter of this year, according to the experience of Otthon Centrum. In the first quarter of this year, the share

of newly-built homes in total sales is 1-2 percentage points higher than in the first quarter of 2014. According to the data of KSH, the share of newly-built homes was 3 percent for the whole of the country, 4.3 in Budapest in the first quarter of 2014 in total sales. Even if the share of new homes increased already last year and this year too, it is still well behind the pre-crisis level of 2008.

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

number of sale transactions (#)	2008	2009	2010	2011	2012	2013	1Q2014	2014, preliminary
home for resale	140,000	82,900	85,500	83,900	83,323	88,713	24,347	100,820
new homes	14,100	8,300	4,800	3,900	2,634	2,295	762	2,877
home for resale, Budapest	34,504	20,674	24,714	22,578	23,916	26,318	7,490	30,663
new homes, Budapest	5,798	3,064	2,015	1,551	1,124	1,043	341	1,278
share of new homes in sales	9.15%	9.10%	5.32%	4.44%	3.06%	2.52%	3.03%	2.77%
share of new homes in sales, Budapest	14.39%	12.91%	7.54%	6.43%	4.49%	3.81%	4.35%	4.00%

Source: KSH, Otthon Centrum

The revival of demand is obvious on the housing market, but it is much stronger on the market of homes for resale than in the segment of newly-built homes. But this does not necessarily depend on the buyers. Experience of Otthon Centrum shows that for a very large portion, above 95 percent of the people who were looking for a home in the first half of 2015, it is irrelevant whether the legal status of that property is "new" or "already used". But as to the remainder, both in Budapest and in the countryside, the ratio of those who are looking explicitly for newly-built homes is around 10 percent. When we compare this with the share of newly-built homes in total sales, we can see that there is demand for newly-built homes, but due to the static, pre-picked housing stock, no transaction is realised.

A constant decline is seen in the stock of homes completed, but not yet sold. In Budapest, the stock of unsold homes, representing 3-4,000 units at the beginning of the crisis, shrunk to approximately one-third of that figure by now. In the absence of supply, it is clear that the higher barriers for an important market surge in terms of newly-built homes are on the offer side. In addition to the fact that the number of homes offered for sale is decreasing, the stock is of very static character, while in many projects only a few last units are still available, the ones with less favourable characteristics.

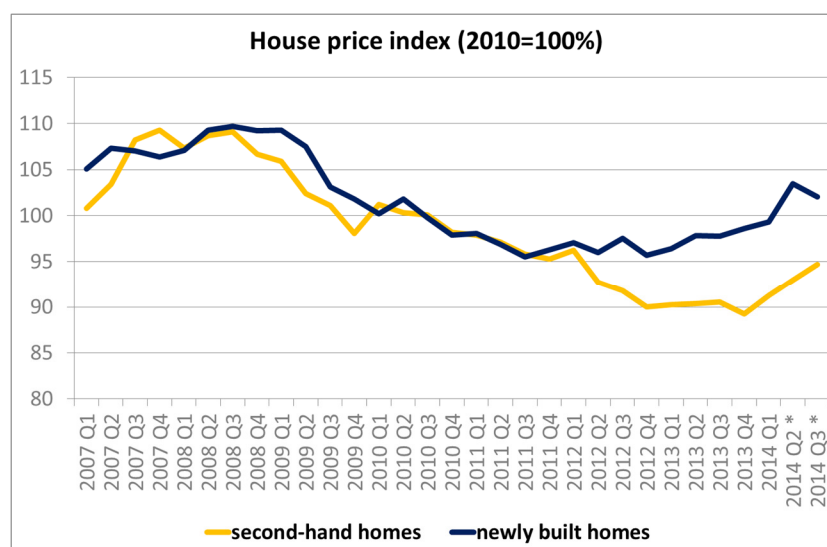
Increasingly often, developers tend to lease the completed homes. This is why these properties leave the market entirely or the developer offers it for sale with lessee inside. In such cases, lease contracts for a determined period are frequent, ensuring that even in the case of a change in ownership, the lessee shall be able to remain there. This might even be attractive for buyers who are looking for investment opportunities, given that the property can produce income immediately.

It is clear from the situation on the market of new homes that the demand-boosting measures, such as the CSOK or the interest-rate subsidy in effect at present are unable to get the market moving and for the refreshing of the static housing stock, representing the most important problem, developers also need assistance. In addition to cheap financing opportunities, a reduction of the VAT content in the price of new homes could bring the changes required for the return of feasibility for developers and so, to let a new offer appear on the market.

According to KSH statistics, the average price of a newly-built home in the capital city was 19 million forints in 2014, in cities and towns of the countryside the average price of newly-built homes was about 15 million. As to prices per square meter, in the capital city this means an average unit price of 357,000 forints per square meter, in the cities and towns of the countryside, the unit price per square meter of a new home is between 246-251,000 forints.

A difficulty in following up the prices of newly-built homes is that the number of transactions recorded in recent years was very low and, therefore, the evolution of the price index is quite volatile. The lowest point on the market was reached in 2011, according to the KSH price index for newly-built homes. Since that time, prices already started to grow, ending the year 2014, after some large fluctuations, almost 5 percent higher.

10 – Housing price indexes in Hungary



Source: KSH, Otthon Centrum



MARKET OF HOMES FROM OWNERS

KEY FINDINGS

Explosion in sales:

The expansion rate exceeding 20 percent in 2014 in the number of sale and purchase transactions persisted in the first quarter of 2015 as well, and to some extent, it even increased. According to our forecast, this year, the market turnover might be close to the level of year 2008. Behind the expansion of demand, there are two main drivers: purchases for investment or for an owner-occupied home, making the upswing a two-speed process to some extent.

Bargain below 10 percent:

In the first quarter of 2015, the average price allowance granted by sellers continued to decrease. From the top level of the first quarter of 2013, total price-cutting dropped below 10 percent only this year. As compared to the same period of last year, the playing field for buyers is 2.5 percentage points smaller now, on average. The drop in the offer prices is much larger than the decreased in price bargain when the contract is concluded, that is, sellers make less changes in the offer price until the arrival of the actual buyer.

Faster selling:

This major expansion in demand can be observed also in the shortening of selling times. In the case of the block homes, time required for selling was less than 2 months in the first three months of 2015, that is, one month less than in 2014. In the case of brick-built homes for sale by the owner, the average selling times dropped by one-third of a month, to below four months. In the case of family houses, we can state rather stagnation in practice.

In this chapter, we present the main trends on the market of homes sold by their owners. Detailed analyses on the market of residential property for resale can be found in our publication [Residential Market Advisor](#).

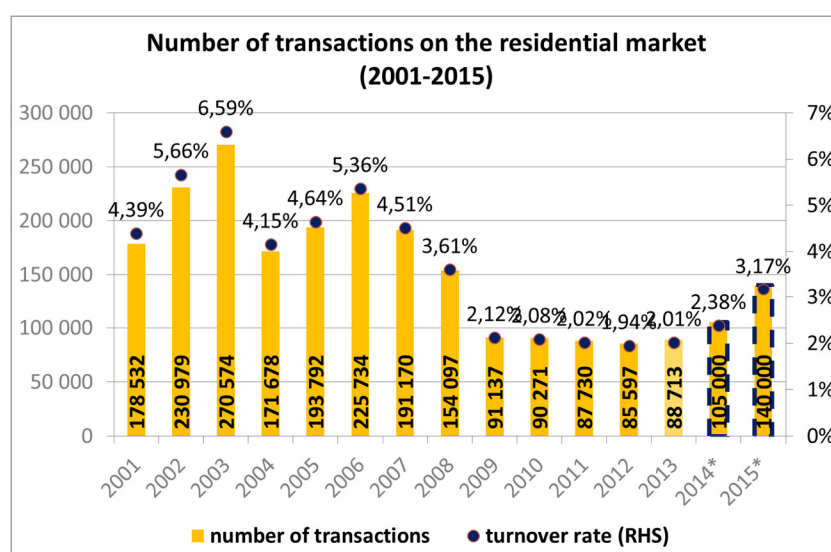
TURNOVER

The expansion rate exceeding 20 percent in 2014 in the number of sale and purchase transactions persisted in the first quarter of 2015 as well, and to some extent, it even

increased. According to our forecast, this year, the market turnover might be close to the level of year 2008. Behind the expansion of demand, there are two main drivers, making the upswing a two-speed process to some extent. In Budapest and in the larger cities in the countryside, the investors' interest appears to be very strong. In the present interest rate environment, many people move their investments from savings to the housing market. Due to the attractive yields of 6-8 percent, on the market of homes in central locations, with good layouts a very important expansion can be observed in the demand.

In the segments that investors are looking for (in Budapest, the market of brick-built homes in the inner districts, the market of block homes in the outer districts) the market might expand at more significant rates than in the segments where buyers are looking for owner-occupied homes, and as a result, this is a two-speed expansion. The other main driver is represented exactly by these buyers, who purchase for their own use. In recent years, buyers postponed their home purchases, in the order of hundreds of thousands, because of the unfavourable economic and financing environment.

11 – Transaction numbers on the market of residential property, 2001-2015



Source: KSH, Otthon Centrum

*Otthon Centrum estimate

The ever-cheaper loans, the improving economic environment, the return of confidence of the households mean that postponed purchases will be realised in growing numbers. Postponed purchases, due to their significant volume, may provide a stable basis for the increase of the housing market for several years.

In the framework of an expansion taking place at different rates, the speed differential will be less pronounced. State subsidies on the one hand, the CSOK system shall have a more important demand-boosting effect in the countryside, but on the other hand, the investors' boom is limited in time, given that those who have sufficient savings to enter the housing market or who plan to invest on this market are limited in number.

EVOLUTION OF PRICES

The rise of housing prices having started in 2014 continued also in the first quarter of 2015. In the case of brick-built homes for resale, prices increased in Budapest more than 10 percent in one year; in the countryside, the increase is more moderate, 3-5 percent. On the market of block homes, prices increased even faster than in the case of brick homes; the increase is around 10 percent in the countryside, in Budapest, above 15 percent. In the case of family houses, no real increase can be observed in the eastern counties and in

the capital city as yet, but in the western counties and in the agglomeration of the capital, prices increased by more than 10 percent.

6 – Average selling prices per square meter by type of property and regions, in the first quarter of 2015 (th. forints)

1Q2015 (thHUF)	brick home for resale	blockhome for resale	brick-built house for resale
Budapest	320	215	228
East	169	143	136
West	184	180	146
Pest County	167	166	171

Source: Otthon Centrum

According to KSH data, at the end of 2014, properties were already 8 percent more expensive in the country than at the lowest point, in the fourth quarter of 2013.

PRICE BARGAIN

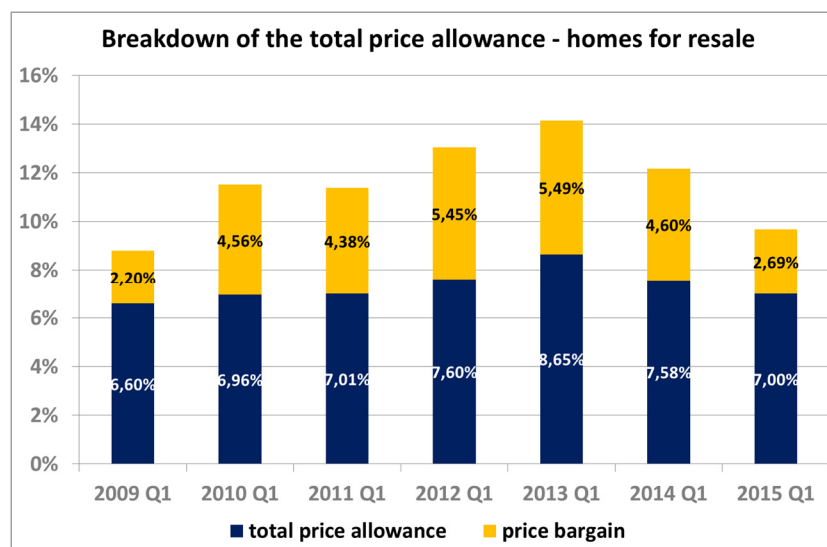
For calculating the price bargain, we investigate the total price-cutting granted in the selling process. In the case of total price-cutting, we compare the price indicated by the seller when the order was given, to the actual selling price. The difference between the two prices comes from the price bargain in selling, on the one hand, achievable by the buyer in the process of concluding the contract, and on the other hand, it also comes from price reductions granted by the seller in the process of selling. Out of total price-cutting, the larger portion comes from the negotiations about the contract, but the weakening of the buyers' positions is manifest in both components.

7 - Extent of the total price-cutting by type of property, 2015. 1st quarter

type of property	total price-cutting	of which upon signing the contract
brick home for resale	8.39%	6.09%
brick-built house for resale	14.14%	10.01%
blockhome for resale	6.43%	5.02%

Source: Otthon Centrum

12 – Breakdown of the total price-cutting, in the first quarters of the year, 2009-2015



Source: Otthon Centrum

In the first quarter of 2015, the average price allowance granted by sellers continued to decrease. From the top level of the first quarter of 2013, total price-cutting dropped below 10 percent only this year. As compared to the same period of last year, the playing field for buyers is 2.5 percentage points smaller now, on average.

The drop in the offer prices is much larger than the decreased in price bargain when the contract is concluded, that is, sellers make less changes in the offer price until the arrival of the actual buyer. However, this does not mean that the sellers' pricing capabilities improved due to demand growth, this comes rather from a competition of the buyers on the market.

Price-cutting was the lowest, based on country-wide average, in the case of blockhomes in the first quarter of 2015. The reason behind such lower level of bargaining is a relative similarity of blockhomes, that is, sellers could more efficiently refer to the selling prices of homes with similar features. In the case of brick-built houses (these include family houses, semidetached houses, rowhouses and parts of houses as well) the larger differences between characteristics, features of the individual properties, the higher value level of these properties contribute to a more significant level of bargaining.

It is important to know that the above extents of bargain always show the average size of price-cutting, but price allowances might be smaller or larger than that. The extent of the allowance to be made by the seller from the initial price is largely dependent on how sanguine their hopes were when the sale was decided and how far the market price levels are acceptable for them.

TIME FOR SELLING

This major expansion in demand can be observed also in the shortening of selling times. As compared to the typical selling times in 2014, the time required for selling decreased both for brick-built and block homes for resale, in the latter case, the decrease was substantial. In the case of the block homes, time required for selling was less than 2 months in the first three months of 2015, that is, one month less than in 2014. In the case of brick-built homes for sale by the owner, the average selling time decreased by one-third of a month, to below four months,. In the case of family houses, selling times decreased somewhat, but in practice, this is rather stagnation.

A shorter selling time of blockhouse flats as compared to the other types of property was observable already prior to the depression. In the background, the reason might be that as opposed to brick-built homes and houses, blockhouse flats mean a more homogeneous conglomerate, the parameters of differences among them are less in number, and this shortens the time required for making comparisons and the decision about the purchase.

8 – df Average selling times in days, by type of property

type of property	2014	1Q2015
Brick home for resale	123	111
Blockhome for resale	83	53
Brick-built house for resale	222	219

Source: Otthon Centrum

When assessing these data, one should take 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 up to a full year on the market. It is advisable to consider the average selling times in the knowledge of these.



MARKET OF RENTED HOMES

KEY FINDINGS

Rise in the rentals:

Rentals increased substantially in the first quarter of 2015, in the case of brick-built homes in the capital city, to an outstanding extent. In the western counties as well, rentals of brick-built homes increased, in the eastern half of the country, stagnation is experienced. Rentals of block-built homes increased at far more moderate rates, both in Budapest and in the countryside.

Yields:

In the case of properties purchased for the purpose of lease, over an investment period of 10 years, the yields achievable are in the range of 6-8 percent.

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 market of rented property is available in our publication Residential Market Advisor.

EVOLUTION OF RENTALS

9 - Average monthly rentals per square meter, by types of property

type of property	2009	2010	2011	2012	2013	2014	1Q2015
Brick home for resale	1,400 HUF	1,390 HUF	1,310 HUF	1,370 HUF	1,440 HUF	1,480 HUF	1,850 HUF
Blockhome for resale	1,030 HUF	930 HUF	970 HUF	1,000 HUF	1,070 HUF	1,150 HUF	1,250 HUF
Brick-built house for resale	1,010 HUF	970 HUF	970 HUF	960 HUF	1,000 HUF	1,040 HUF	1,050 HUF

Source: Otthon Centrum

Rentals increased substantially in the first quarter of 2015, the increase was especially significant in the case of brick-built homes in the capital city. In the western counties as well, rentals of brick-built homes increased, in the eastern half of the country, stagnation is experienced. Rentals of block-built homes increased at far more moderate rates, both in Budapest and in the countryside. In terms of the rentals for family houses, no significant change occurred in the first three months.

YIELDS

One of the most frequently seen investment strategy is to purchase property to be leased. This might be particularly attractive now when property prices are decreasing. In the frequented areas, in the neighbourhood of universities, colleges, in cities with a significant demand for new manpower, one can safely expect revenues from letting. In this chapter, we demonstrate the profit that can be realised from lease, with a calculation of theoretical yields.

In the model, we calculated with an investment period of 10 years, which means that in the first year, the home acquired in 2015 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.*
- *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 2.67 percent.*
- *From the second year, the owner spends, in real terms, HUF 100,000 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 in demand. Taking for a basis the ground areas of properties attracting the most interest, we calculated the purchase price and the annual rental fee revenues based on the average purchase price per square meter in effect in the first quarter of 2015 and the average rental fees per square meter in this same period. Yields for the different properties are around 6-8 percent.

10 - Yields achievable through lease in the case of some types of renting, being looked for in 1Q2015

Location	Type of property	ground area	yield
Budapest	blockhome for resale	50 sqm	7.59%
Budapest	brick home for resale	40 sqm	5.98%
Budapest	brick home for resale	60 sqm	7.11%
western part of the country	brick home for resale	60 sqm	7.85%
eastern part of the country	blockhome for resale	50 sqm	8.47%
Pest County	brick-built house for resale	100 sqm	6.52%

Source: Otthon Centrum



LAND MARKET

KEY FINDINGS

Land prices:

In the first three months of this year, plot prices in Budapest were around HUF 26,000 per square meter, that is, the plot prices did not change significantly as compared to the end of 2014. In the agglomeration around the capital city, the average price was HUF 9,500 per square meter. In the cities of the countryside, the average plot price per square meter lagged behind only by a few thousand forints.

Plots in demand:

In Budapest, demand is highest for plots of 28-30 million forints, 1000 square meters, in Pest County, for those of 5-6 million, 800-900 square meters. Both in the eastern and western halves of the country, demand is concentrated on plots at 3 and 7 million forints. In the East, plots of 1500, in the West, the ones of 700 square meters attracted the most interest.

Methodology notes: We investigate buyers' preferences on the basis of interest shown to specific properties included in the advertisements. In the case of land plots, the investigation covers two aspects: price and size of the land. We classify properties into groups, based on their prices, by a scale of one million forints, and 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 obtained from queries referring to plots in urban areas, advertised via Otthon Centrum in the first quarter of 2015.

CONSTRUCTION PLOTS IN DEMAND

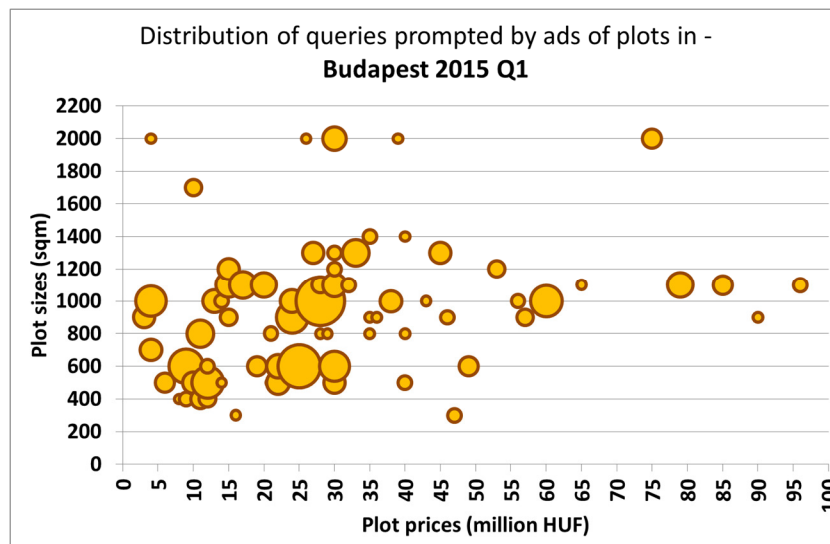
In this chapter, we investigate queries received in the first quarter of 2015, referring to plots advertised, on the basis of prices and ground areas. The survey covers construction plots in urban areas only.

Budapest

In the capital, the largest number of queries in the first quarter of 2015 were about plots priced at 28-30 million forints. Similarly, plots priced at 24-25 million as well as the cheaper ones, offered at 9, 11-12 millions were also sought-for items. In the category of 30 million, the buyers were looking for plots in the range of 600 and 1000 square meters, but in the price range of 25 million as well, the construction plots with a ground area of 600 square

meters were the most popular. Demand is distributed on a relatively wide range, up to the price tag of 85 million, active demand can be seen for plots. The price categories above that level, hardly 5 percent of the demand only appears. Two-thirds of the buyers focus on land plots priced between 10 and 30 million forints. In the capital city, regardless of prices, plots of about 1,000 square meters attracted the most interest.

13 - Urban-area construction plots in demand – Budapest 1Q2015

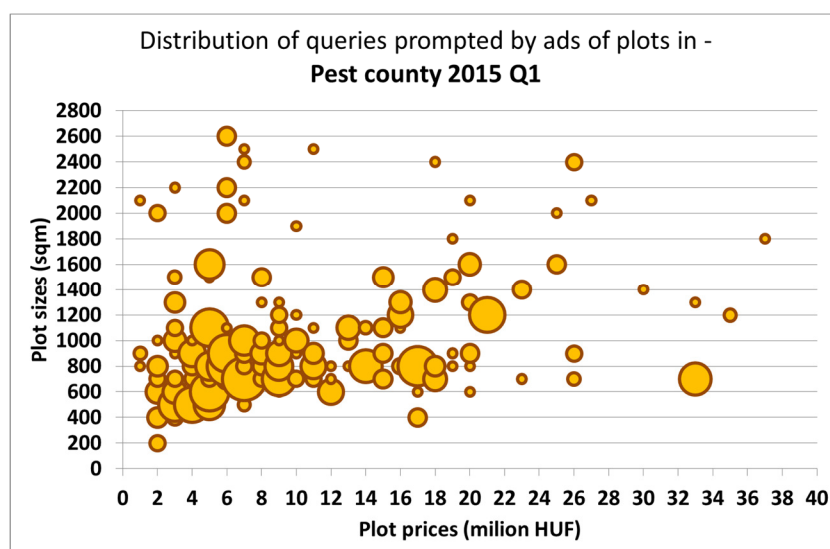


Source: Otthon Centrum

Pest County

In Pest County, similarly to the trend observed at the end of last year, the largest number of queries came for plots of 5-6 million in the first quarter of 2015. Demand is important also for construction plots offered at prices of 17-18 million. Four-fifth of the demand was concentrated plots offered in the range from 2 to 18 million forints. Demand remains important roughly up to the limit of 30 million, above that level, there were only a few queries. In the categories of 6 and of 17-18 million, in particular, plots of 800-900 square meters are being looked for, but irrespective of the price, these attracted one-third of all queries. As opposed to the capital city, in the agglomeration demand is substantial for larger plots of land, even with ground areas in excess of 1400 square meters.

14 - Urban-area construction plots in demand – Pest County 1Q2015

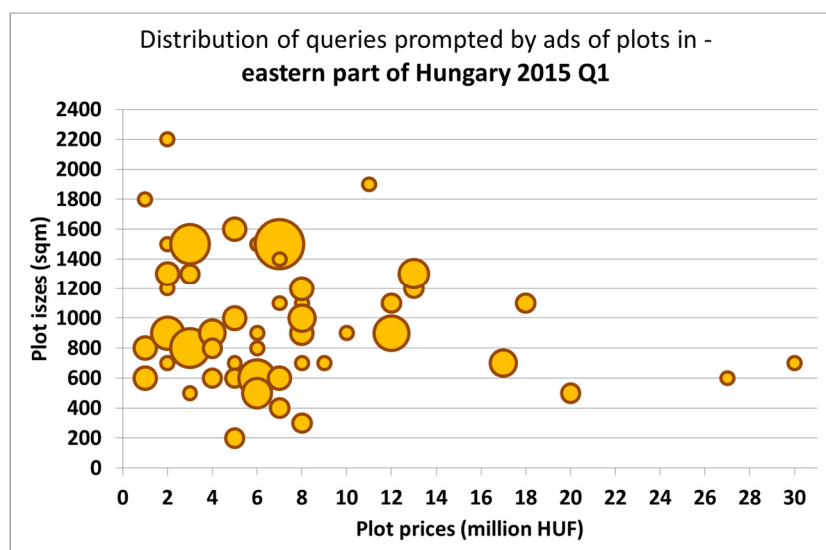


Source: Otthon Centrum

Eastern Hungary

In the eastern half of the country, in the first three months of 2015, interest was the most important for plots offered at prices of 3 or 7 million forints. Demand is less differentiated than in Budapest and its agglomeration; in this part of the country, three-quarters of the people looking for land showed an interest towards plots priced between 2 and 8 million. Demand remains important up to the limit of 20 million, above that level, we registered only a few queries. In the case of the cheaper plots at 2-3 million, the ground areas are in the range of 800-900 square meters, in the range of around 7 million, the larger plots of about 1,500 square meters were highest in demand, but irrespective of the price, these attracted one-third of all queries.

15 - Urban-area construction plots in demand – Eastern Hungary 1Q2015

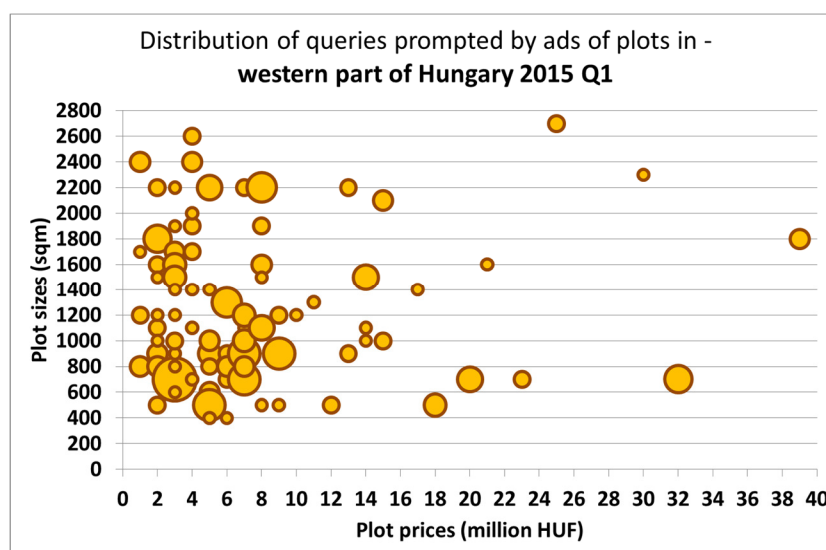


Source: Otthon Centrum

Western Hungary

In the western half of the country, the largest number of people with interest applied for plots offered at prices of 3, 5 or 7 million forints. Demand is concentrated in a similar way, with three quarters of it being for plots offered between 2 and 9 million forints.

16 - Urban-area construction plots in demand – Western Hungary 1Q2015



Source: Otthon Centrum

The difference between the two halves of the country only is that in the western counties, there is demand also for land plots above 20 million, and the ones priced at 32 and 39 million also attracted interest. In respect of the plots between 3-5 million, as well as in the case of the 7 million category, the plots of about 700, 900 square meters were the most popular, but also irrespective of prices, this is the size that attracted the most queries.

LAND PRICES

In the table below, we present the data of sale and purchase transactions, administered via Otthon Centrum, in some districts of the capital city and towns and villages in the countryside.

11 – Prices of urban-area land in some transactions made in 1Q2015

Plot size (sqm)	Price	Location
2000	68,000,000 HUF	Budapest District XI - Hosszúrét
1910	42,000,000 HUF	Budapest District XXII - Budafok
576	8,000,000 HUF	Budapest District XVII. - Rákosszaba-Újtelep
1018	21,000,000 HUF	Budapest District III - Csillaghegy
780	4,200,000 HUF	Szolnok
1041	9,500,000 HUF	Debrecen - Pallag
840	5,600,000 HUF	Debrecen - Alsó-Józsa
1505	13,250,000 HUF	Tatabánya
993	20,800,000 HUF	Sopron
2143	6,500,000 HUF	Csömör
520	2,200,000 HUF	Gyál
1501	10,000,000 HUF	Nagykovácsi
964	11,000,000 HUF	Cegléd
542	7,400,000 HUF	Gödöllő
995	20,000,000 HUF	Nagykovácsi
636	14,320,000 HUF	Diósd

Source: Otthon Centrum

Upon request, we also prepare structured reports on the property market;
please contact us at:

Otthon Centrum Research Division

Tel.: (+36 1) 487 3321 | Fax: (+36 1) 487 3333

dery.attila@oc.hu | **www.oc.hu**