

RESIDENTIAL MARKET M O N I T O R

THIRD QUARTER 2015

WELCOME

DEAR READERS, DEAR PEERS,

We have every right to be glad, with the boom on the housing market making continued progress, and in terms of prices and turnover, we are also approaching the pre-crisis levels. The 150-155 thousand transactions expected for this year already correspond to the turnover figure of 2008, the first, partially crisis-struck year. In the upcoming 3-4 years, the turnover may even exceed the pre-crisis level, and what is more, the number of sale and purchase transactions might even pass the level of 170-180,000, considered as equilibrium level. For the whole of the country, prices already are 15 percent above the low level of late 2013, and we are lagging behind the nominal high of 2008 by only 4 percent. The fact that the housing market managed to overcome this lag so soon is mainly attributable to investor interest in the capital city and the larger cities of the countryside. In the present investment environment, the yield of 7-10 percent achievable on long-term lease is considered very attractive, and the price rise presented above attracted a large number of investors to the market. Market entrants pursuing speculative goals put a very serious pressure on the prices, with a price increase of about 20 percent in Budapest and 10-15 percent in the countryside in the segment of brick homes in the first three quarters of this year, as compared to last year. In the case of block homes in Budapest, the increase is well above 20 percent, but it is in the range of 10-20 percent in the countryside, too. Performance of the market of homes for resale is not noticeable as yet on the market of newly-built homes, where the number of completed homes decreased further in the first three quarters. An upswing on the newhome market has limitations on the offer side; with a VAT of 27 percent, return on many investments remains stuck in the red figures. This is another reason why one of the most important regulatory changes would be a VAT rate cut for new homes, as already mentioned in government statements. Lending also started to recover slowly, with an almost 50 percent expansion in the amount of the new housing-purpose loans in the first nine months of the year. The basis for growth is, both for lending and on the housing market, a very large number of buyers who postponed their purchases during the crisis years.



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SUMMARY

RESIDENTIAL CONSTRUCTION

No trend change:

In the first three quarters of 2015, the number of occupied homes decreased by 9 percent for the whole country, 21 percent in Budapest and 4 percent in the cities of the countryside, as compared to the values of a year ago. By the same, the growth observed at the beginning of last year came to a halt. In 2015, the number of completed homes represents only about one-fifth of the level in pre-crisis 2007, as home construction cannot recuperate due to structural problems experienced on the new-home market.

Better future:

Evolution of the number of construction permits already gives more reason for optimism, especially for the future, as this figure is a good forecaster of developers' expectations and changes in occupancy permits. In the first nine months of 2015, at the country's level, the number of construction permits issued increased by 24 per cent, i.e. a steady growth since the low of 2013.

Inertia of the supply:

The year 2015 will not bring a trend change; that can be expected rather in 2016, especially if the structural problems with new homes can be solved, and the obstacles on the offer side are eliminated by a VAT rate cut for new homes. This year's performance (taking into account that decisions about the homes completed now were made by the end of 2013, early 2014) is partially due to the inertia on the supply side, with lead times of 1-2 years in housing.

FINANCING ENVIRONMENT

Permanent expansion in lending:

In the first three quarters of 2015, banks placed housing loans to the value of 256 billion forints to households, which means a five-year high. This is 48 percent higher than the amount of new loans in the same period of last year.

Inexpensive loans:

The average cost of loans (APR) decreases permanently, reaching already a 10-years low by the third quarter of this year. In the case of housing-purpose loans, the APR was 5.64 percent in September 2015, but products with interest periods of less than 1 year were even cheaper than that, at 4.6 percent.

Increase in maturities:

In average maturity, an increase started already in the first half of 2015, with 14.2 years in respect of homes for resale and 15.6 years for purchases of new homes. In respect of both types of homes, there was a turn in the falling trend of previous years.

HOUSING POLICY AND REGULATION

CSOK in practice:

On the basis of Otthon Centrum sales, in the countryside, the overwhelming majority of the offer is available for almost all types of properties to CSOK applicants. As to Budapest, mainly the offer of the brick-built homes (mostly parts of houses, rowhouses, semidetached houses), and the offer of block homes meet the provisions. In the areas of the countryside, a larger portion of the offer meets the CSOK terms and, due to the lower prices, the amount of the assistance represents a larger share in the value of the properties in these areas, and so, CSOK shall be more prevalent outside the capital city. Therefore, the share of subsidised purchases might be higher in the turnover of the countryside, but even so, it shall not exceed 10 percent.

Decrease in VAT on new homes:

For the time being, a reduction in the VAT rate for newly-built homes appeared only as a promise of the government. The amount to become free might be split into three portions: increase in developers profits, increase in land prices, lowering of the housing prices. A VAT rate of 18 percent would mean a price drop of approximately 3.5-4 percent, a 5 percent rate would mean a 8.5-9 percent price reduction.

Defaulted loans:

For the time being, the properties behind the 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. Since September 2015, the scheme of private bankruptcy is accessible; this might also reduce the number of homes that banks or owners are forced to sell. The effect of private bankruptcy on the housing market cannot be assessed as yet, given that we have very little probationary information. In theory, it could result in a realignment from higher-priced homes to the reasonable choices.

MARKET OF NEWLY-BUILT HOMES

Slight improvement:

According to the experience of Otthon Centrum, in the first three quarters of 2015, the number of newly-built homes already increased, with newly-built homes representing in total sales a 1-2 percentage points higher share, to the same period of last year. The stock of completed but unsold newly-built homes is decreasing continuously, at the end of first-half 2015, the unsold stock was already below 1,000. Supply is shrinking and, on the basis of housing construction statistics, it cannot be refreshed, with slightly more than 800 new homes built for sale completed in the first nine months.

Limitations on the offer side:

From all people who show interest, roughly 15 percent are looking for a newly-built flat in Budapest and in the countryside, their share is about 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. On the offer side, with a VAT rate of 27 percent, the return on many projects is in the red, negative range, while more than one-quarter of the revenue is taken away by VAT. From the remaining net amount, after the deduction of financing, land, construction and other costs, a return that would meet the expectations of the investors cannot be achieved.

MARKET OF HOMES FROM OWNERS

Permanent growth:

In 2014, turnover on the Hungarian market of residential properties expanded by 28 percent, and this year an even larger expansion of about 35-40% is evolving, based on sales data in the first three quarters. For this year, we forecast a transaction number of about 155,000 and this is only slightly behind the pre-crisis level. In the coming years, with regard to the present dynamics, the housing market will most probably exceed this level, and this forecasts stable growth for 3-4 years.

Prices on the rise:

In the segment of brick homes, the price increase was about 20 percent in the capital city and 10-15 percent in the countryside in the first three quarters of this year, as compared to last year. In the case of block homes in Budapest, the increase is well above 20 percent, but it is in the range of 10-20 percent in the countryside, too. In the segment of family houses, the price increase is about 10 percent in the capital city, and even lower in the countryside, in the range of 5-8 percent.

Faster selling:

In the first nine months of 2015, selling times of occupied brick-built and block homes dropped drastically. On national average, the time required for the sale of brick homes dropped from 4 to 3 months, and in the case of block homes, instead of 3 months in 2014, the

owner shall calculate with a selling time of 1.5 months. In the case of family houses, selling times stagnated.

MARKET OF RENTED HOMES

Rentals on the rise:

The first nine months of 2015 brought a very significant increase in rentals. Rentals of occupied brick homes increased substantially in the western part of the country and Budapest, rentals of block homes in almost all larger cities.

Yields:

In the case of properties purchased for the purpose of lease, over an investment period of 10 years, the yields achievable are between 7 and 10 percent.

LAND MARKET

Turnover:

Based on Otthon Centrum's experience, the market of construction plots suitable for own use significantly expanded from 2013 to 2014, but in the first nine months of 2015, we registered a turnover increase of only 15-20 percent. Turnover of the larger plots suitable for property development increased significantly in the first nine months of this year, the turnover is 50 percent higher than last year.

Land prices:

The price of construction plots suitable for own use was about 28-30,000 forints per square meter in the capital city in the first three quarters of 2015. This means a roughly 10 percent increase to the same period of last year. In the eastern counties, one square meter of a construction plot costed 10-12,000 forints, whilst in the western counties, land was a bit cheaper, traded at the level of 8-10,000 forints. Plot prices increased also in the countryside, in a comparison to last year.



RESIDENTIAL CONSTRUCTION

KEY FINDINGS

No trend change:

In the first three quarters of 2015, the number of occupied homes decreased by 9 percent for the whole country, 21 percent in Budapest and 4 percent in the cities of the countryside, as compared to the values of a year ago. By the same, the growth observed at the beginning of last year came to a halt. In 2015, the number of completed homes represents only about one-fifth of the level in pre-crisis 2007, as home construction cannot recuperate due to structural problems experienced on the new-home market.

Better future:

Evolution of the number of construction permits already gives more reason for optimism, especially for the future, as this figure is a good forecaster of developers' expectations and changes in occupancy permits. In the first nine months of 2015, at the country's level, the number of construction permits issued increased by 24 per cent, i.e. a steady growth since the low of 2013.

Inertia of the supply:

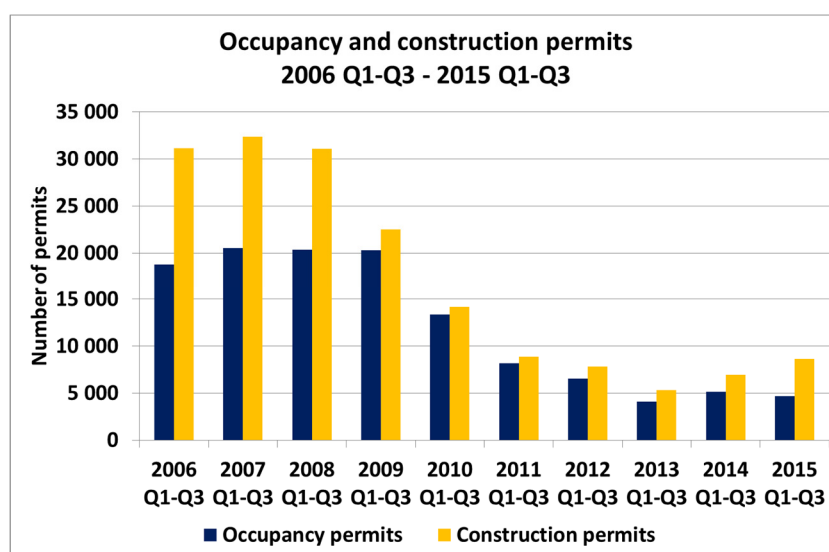
The year 2015 will not bring a trend change; that can be expected rather in 2016, especially if the structural problems with new homes can be solved, and the obstacles on the offer side are eliminated by a VAT rate cut for new homes. This year's performance (taking into account that decisions about the homes completed now were made by the end of 2013, early 2014) is partially due to the inertia on the supply side, with lead times of 1-2 years in housing.

In the first three quarters of 2015, countrywide, 4,657 newly-built homes were completed. This is 9 percent below the performance in the first nine months of 2014. Even though data are above the low in 2013, the fact that the upward trend of 2014 has been broken, clearly indicates that residential construction and the segment of the new homes continue to struggle with problems, in spite of the upswing on the housing market. In 2015, the number of homes completed to date represents only about one-fifth of the level in pre-crisis 2007, as home construction cannot recuperate due to structural problems experienced on the new-home market. We present these structural problems in detail, in

the chapter dealing with newly-built homes. In the last quarter of 2014, 3,200 homes were completed in the country, while in the three quarters of 2015, only slightly more than 1,500 per quarter. In each quarter of last year, more homes were completed than this year.

Evolution of the number of construction permits already gives more reason for optimism, especially for the future, as this figure is a good forecaster of developers' expectations and changes in occupancy permits. In the first nine months of 2015, at the country's level, the number of construction permits issued increased by 24 per cent, i.e. a steady growth since the low of 2013. The figure of 8,616 construction permits issued is already 61 percent higher than the low of year 2013, but it makes only a quarter of the pre-crisis number of 32,000 in 2007. The increase in the number of construction permits allows us to conclude that the property developers also perceive the upswing in demand and they are preparing the projects to be launched in the future. At the same time, the rate of the increase is very moderate for the time being.

1 - Main indicators of home construction in Hungary



Source: KSH (Central Statistics Office)

The year 2015 will not bring a trend reversal, with high probability, the output will remain below the number of 8,358 occupied homes in the year 2014. The trend change can be rather expected for 2016; in particular, if the structural problems with new homes can be solved, and the obstacles on the offer side are eliminated by a VAT rate cut for new homes. This year's performance (taking into account that decisions about the homes completed now were made by the end of 2013, early 2014) is partially due to the inertia on the supply side, with lead times of 1-2 years in housing.

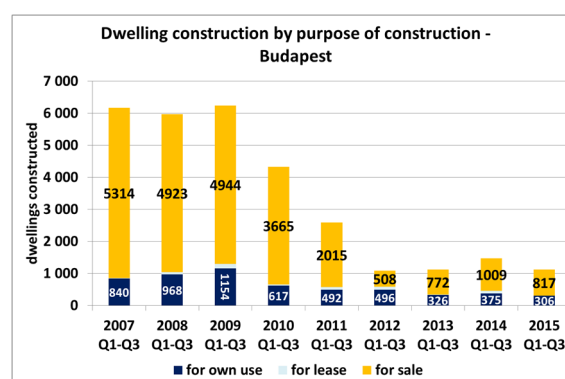
We keep stressing that the lag in home construction poses a problem not because of some quantitative shortage of homes. For the whole of the country, the number of inhabitants per 100 homes dropped from 269 persons in 2001 to 224 persons in 2014, which means less and less persons per home. A shortfall may appear rather on the quality side, given that the expected number of homes built in 2015 represents less than 3 thousandths of the 4.4 million homes in the year 2014. This means that it would take more than 300 years at the present tempo to replace the stock. Replacement should be at least three times faster, even taking account of the homes that can be upgraded at reasonable costs. That said, newly-built homes mean a quality upgrade for the existing property stock and, if this substitution fails, a long-term problem may arise.

REGIONAL OVERVIEW

In the capital city, in the first three quarters of 2015, 1,162 homes were completed, i.e. 21 percent less than the number recorded for the same period of last year. This decrease is well above the average drop for the country, as the number of completed homes in the first three quarters of 2015 represents the nadir in 2013. In the last quarter of 2014 yet, 536 homes were completed in the capital city, but after that, only 516 and 387 per quarter, and in the third quarter only 259 homes received the occupancy permit. Almost three-fourth of the completed homes were built for sale this year in Budapest, even though the number of homes built for own use also dropped by 20 percent. One shall not forget that decisions about the homes completed this year were made back in late 2013, early 2014, when neither the recovery of the housing market nor the demand expansion were not that clear.

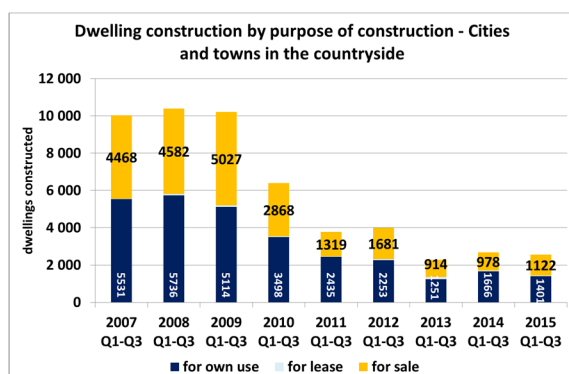
Still, the number of construction permits increased by 73 percent in the capital city, from the first nine months of 2014 to the nine months of 2015. Therefore, the developers' expectations are at present far more positive, and this forecasts a more favourable performance of the housing market for the year 2016. The number of construction permits issued was 720, 569 and 565, respectively in the three quarters of this year, well above the quarterly number of such permits last year. And the last quarter of the year traditionally is the strongest in terms of the number of construction permits.

2 - Distribution by construction purposes in home construction - Budapest



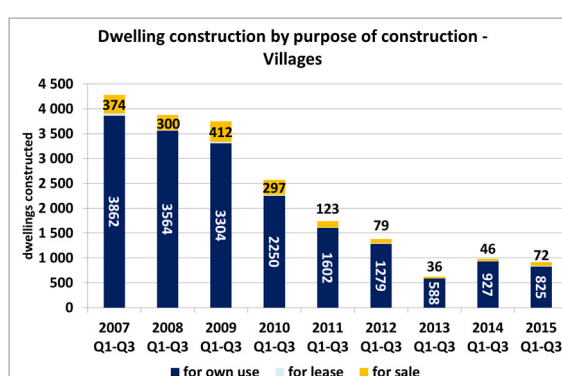
Source: KSH

3 - Breakdown by construction purpose in home construction - cities/towns in the countryside



Source: KSH

4 - Distribution by construction purposes in home construction – villages



Source: KSH

In the cities with county rights, the number of occupied homes increased by 15 percent already, whilst in the other cities, a 17 percent decrease is observed. The resultant of these two is a 4 percent decrease in the housing construction performance of the cities/towns in the countryside. The number of homes built for sale and sold increased by 14 percent in the cities of the countryside, but this was offset by the 16 percent setback in the number of homes built for own use. Construction permits show a positive trend in the cities of the

countryside as well; 16 percent more construction permits were issued in the first nine months of this year, than in the same period in 2014.

In the villages, 7 percent less was the number of homes built, with a total of 920 homes completed in the first nine months of 2015. 90 percent of the homes were built for own use, which means that no breakthrough came in the expectations of the households, people don't dare to launch construction projects, just like in the crisis years. The lead times of 1-2 years apply to these settlements as well, that is, the decisions regarding the homes completed now were made in a poorer situation. The number of construction permits shows an increase of 12 percent in the villages, meaning some improvement in the appetite to build, but for the whole of the country, the lowest increase took place in the villages.



FINANCING ENVIRONMENT

KEY FINDINGS

Permanent expansion in lending:

In the first three quarters of 2015, banks placed housing loans to the value of 256 billion forints to households, which means a five-year high. This is 48 percent higher than the amount of new loans in the same period of last year.

Inexpensive loans:

The average cost of loans (APR) decreases permanently, reaching already a 10-years low by the third quarter of this year. In the case of housing-purpose loans, the APR was 5.64 percent in September 2015, but products with interest periods of less than 1 year were even cheaper than that, at 4.6 percent.

Increase in maturities:

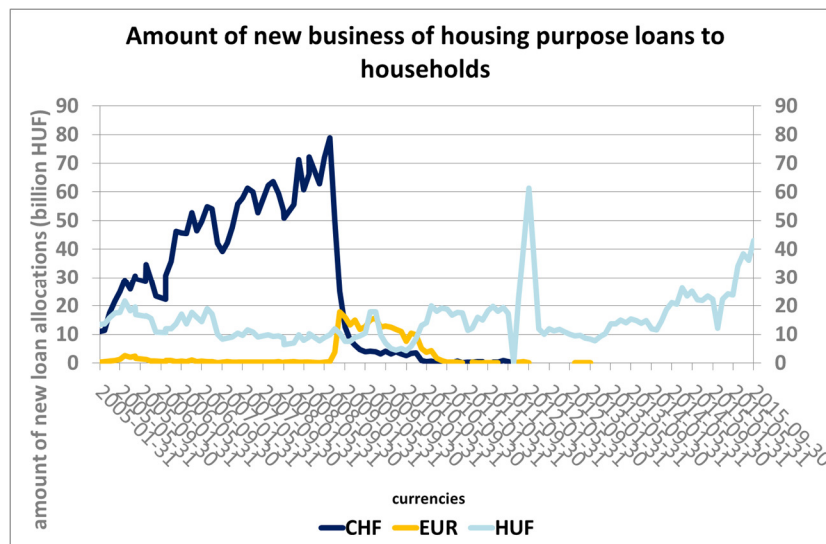
In average maturity, an increase started already in the first half of 2015, with 14.2 years in respect of homes for resale and 15.6 years for purchases of new homes. In respect of both types of homes, there was a turn in the falling trend of previous years.

According to MNB data, housing-purpose retail loans amounted to 3,050 billion forints at the end of September 2015. This is 10 percent less than the figure measured in September 2014. After the conversion into forints, MNB has on records a negligible amount of 22 billion, as currency loan stock. In September, the households were in net repayer position, with total repayments exceeding new loans by more than 21.2 billion forints. The stock of forint loans decreased by 10 billion, the stock of the currency loans, by 11.2 billion forints. The change in the stock during September is fully compliant with the trend to date, where households were net repayers in each month.

In the first three quarters of 2015, banks placed housing loans to the value of 256 billion forints to households, which means a five-year high. This is 48 percent higher than the amount of new loans in the same period of last year, and it is already very close to the amount of 271 billion measured in the first three quarters of 2009, the first crisis-struck year. Prior to the crisis, in 2008, the placement of new loans in the first three quarters was 643 billion forints, which is quite far for now, but a clear upward trend is emerging. This upward trend may persist for several years, given that the housing market also shows a

major upturn; a steady increase may come in the number of purchases in the next 3-4 years. As financing and housing market turnover typically move closely together, in addition, on the housing market the role of the main driving force may pass from investors making use of less loans to buyers purchasing for own use, who might make use of financing to a larger extent in the purchase procedure.

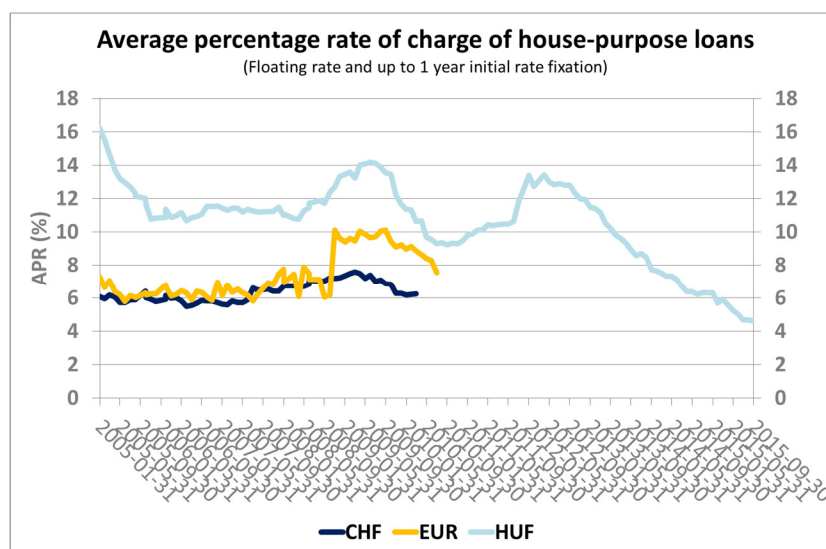
5 – Amount of new retail loan allocations for housing purpose



Source: MNB (National Bank of Hungary)

Need for housing loans may be boosted by the permanent decrease in the average cost of loans, reaching already a 10-years low by the third quarter of this year. According to MNB data, the APR was 5.64 percent in September 2015, in the case of housing-purpose loans, but products with interest periods of less than 1 year were even cheaper than that, where the average loan cost was 4.6 percent. In the case of products with interest periods between 1 and 5 years, the average loan cost index is 6.8 percent, for the ones with interest periods exceeding 5 years it is 6.3-6.4 percent. In the period prior to 2008, the lowest level of average loan cost was around 5.5-6 percent for euro- and Swiss franc-denominated currency loans, that is, in the present financing environment it is already cheaper to finance the purchase of a home than it was in the period of currency loans.

6 – Average loan cost of the housing-purpose loans to households

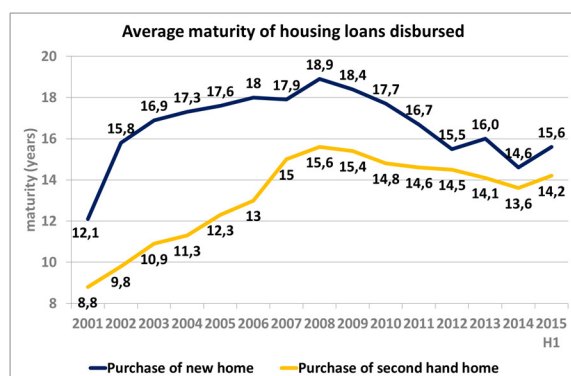


Source: MNB (National Bank of Hungary)

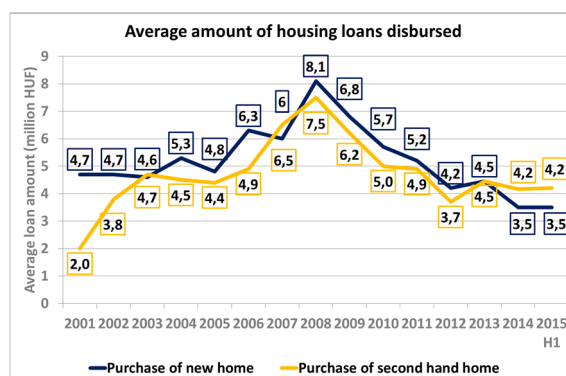
According to KSH data, there was no change in the amount applied for the purchase of homes for resale, it remained 4.2 million, also in the first half of 2015. The average price of homes for resale was 10.8 million in the first half of 2015, which means a loan ratio of roughly 40 percent to the value of the homes. In the case of data from KSH on the loan amounts, we shall take into account that the average is calculated per loan contract, but their number does not necessarily correspond to the number of home purchases financed from loans. It may occur that for one purchase, the buyer takes several loans. This may occur primarily in the case of subsidised loans, when the maximum amount of the subsidised loan is insufficient for the purchase of a home, and a market-based loan is needed, as a supplement.

In average maturity, an increase started already in the first half of 2015, with 14.2 years in respect of homes for resale and 15.6 years for purchases of new homes. In respect of both types of homes, there was a turn in the falling trend of previous years. According to the experiences of Otthon Centrum Hitel Center, from the point of view of maturity, loan applicants can be divided into two major groups. A significant portion of the clients are looking for cheap (or the cheapest) loan products, that is, they prefer lower interest rates and installments as low as possible. These schemes are typically short-term, even with interest rate periods of less than a year, sometimes with interest rates of 3-4 percent. Clients in the other group are looking for safety, long-term predictability, therefore they opt for the more expensive products with fixed interest rates for several years, such as 10 years or more. The interests payable on these loan products are in the range of 5-6 percent.

7 - Average term of the disbursed housing-purpose loans



8 - Average amount of the disbursed housing-purpose loans



Source: KSH (Central Statistics Office)

According to the survey of MNB on lending, in the second quarter of 2015, in the case of the housing-purpose loans, an important portion of the banks (in net terms, two-thirds of them) lowered their premium, with regard to the partial conditions. According to the forecast of bank that answered the survey, 5 percent of them plan a further easing of the housing loan terms.

According to the May forecast of MNB, even though in constantly decreasing extent, the household sector will remain net loan repayer until early 2017, that is, the payback of loans will exceed the loans received. Besides, the amount of the new loan placements can constantly increase, as more and more purchases for own use will be implemented from the postponed ones during the crisis years. There is plenty of room for an upswing in lending for housing purposes, and this is also very much needed, in order to make the upturn of the housing market and to extend the period of the expected upturn for as long as possible.



HOUSING POLICY AND REGULATION

KEY FINDINGS

CSOK in practice:

On the basis of Otthon Centrum sales, in the countryside, the overwhelming majority of the offer is available for almost all types of properties to CSOK applicants. As to Budapest, mainly the offer of the brick-built homes (mostly parts of houses, rowhouses, semidetached houses), and the offer of block homes meet the provisions. In the areas of the countryside, a larger portion of the offer meets the CSOK terms and, due to the lower prices, the amount of the assistance represents a larger share in the value of the properties in these areas, and so, CSOK shall be more prevalent outside the capital city. Therefore, the share of subsidised purchases might be higher in the turnover of the countryside, but even so, it shall not exceed 10 percent.

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For the time being, a reduction in the VAT rate for newly-built homes appeared only as a promise of the government. The amount to become free might be split into three portions: increase in developers profits, increase in land prices, lowering of the housing prices. A VAT rate of 18 percent would mean a price drop of approximately 3.5-4 percent, a 5 percent rate would mean a 8.5-9 percent price reduction.

Defaulted loans:

For the time being, the properties behind the 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. Since September 2015, the scheme of private bankruptcy is accessible; this might also reduce the number of homes that banks or owners are forced to sell. The effect of private bankruptcy on the housing market cannot be assessed as yet, given that we have very little probationary information. In theory, it could result in a realignment from higher-priced homes to the reasonable choices.

In 2015, several measures took effect that have and may have a major effect on the housing market in the future, either directly (such as the Family Home Creation Allowance) or indirectly (like the conversion of debt into forints or the private bankruptcy scheme). The recovery is very fast on the housing market, the transaction and price levels are gradually catching up to the pre-crisis levels. In this situation, the main task of the regulatory system is to eliminate the imbalances from fast growth, for instance, by reviving the housing markets of the smaller settlements in the countryside or subsidising purchases for own use, in order to ensure a widening and extending of the housing market growth.

GOVERNMENT PROGRAMS TO BOOST DEMAND

Since 1 July 2015, the Family Home Creation Allowance (CSOK) is available for use. We have already dealt with the terms of this scheme in detail, in the previous number of Residential Market Monitor. Non-refundable assistance is available for the purchase of new homes and homes for resale, the construction of new homes, as well as for enlargement of an existing home. The amount of the 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. Both for newly built homes and the ones for resale, provisions apply regarding their size, maximum price and price per square meter. In addition to terms regarding the properties, applicants shall also comply with several provisions, among others: at the time of the purchase, they cannot own residential property and, of course, there shall be children or unborn children in the family.

In conformity with the market conditions, the most popular support goal is, according to feedback from banks, the purchase of homes from owners. The sale of new homes play only a marginal role in sales, and the volume of home construction for own use did not leave the nadir as yet. In the case of homes for resale, the price per square meter of the eligible properties shall not exceed HUF 350,000 and shall not exceed the maximum purchase price set by regions and types of the locations.

1 - Maximum purchase prices of homes from owners, CSOK

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

Comparing these restrictions regarding the property with the prices of homes sold by Otthon Centrum in the first nine months of 2015, one can see what is the percentage of the offer that meets the terms of CSOK.

2 - Share of properties for resale meeting the CSOK criteria within the total offer, 2015 Based on sales in the 1_3 quarters

	in residential property for resale	in brick-built homes for resale	in block-built homes for resale	in brick-built houses for resale
Budapest	67.70%	57.58%	96.94%	89.16%
East	97.58%	97.98%	100.00%	91.84%
West	90.15%	93.19%	100.00%	82.19%
Pest County	83.26%	92.86%	100.00%	77.81%

Source: Otthon Centrum

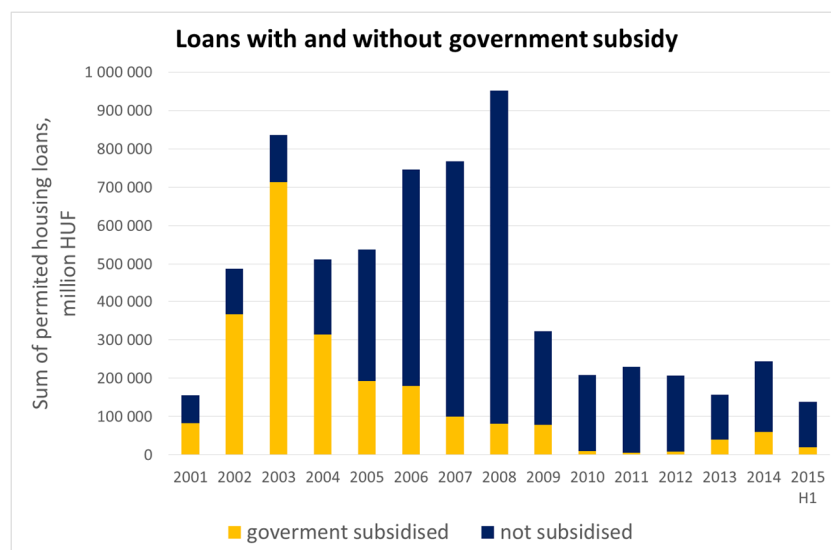
On the basis of Otthon Centrum sales, in the countryside, the overwhelming majority of the offer is available for almost all types of properties to CSOK applicants. As to Budapest,

mainly the offer of the brick-built homes (mostly parts of houses, rowhouses, semidetached houses), and the offer of block homes meet the provisions. Based on that, the bottleneck is caused not by the specifications regarding the properties. On the basis of data from Otthon Centrum Hitel Center, rather the provisions relative to applicants are narrowing the scope of eligible buyers; frequently, those who have shown interest already own residential property - a ground for refusal.

On the basis of estimates from the industry, banks accepted approximately 5,000 applications between July and September 2015, in excess of the respective expectation of the government. The government calculates with 10-11,000 applications. Superimposed with the expected 150-155,000 transactions for the year, this means that support would be available for 6-7 percent of the transactions, as a maximum. If we take into account that in the areas of the countryside, a larger portion of the offer meets the provisions of CSOK and the subsidy amount represents a larger share in these areas, due to the lower prices, in the value of the properties, we can say that CSOK shall be prevalent outside the capital city. Therefore, the share of subsidised purchases might be higher in the turnover of the countryside, but even so, it shall not exceed 10 percent. A boost on the countryside market is highly needed, too, because in 2014 and in the first three quarters of 2015 the real estate market recovered mainly in the capital city and in larger cities, whilst 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 non-refundable grants is not characteristic. This investor demand played a role in boosting the market in those, already mentioned recovering areas. 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 limit in terms of square meters, the system has some flexibility now with regard to future price increases on the market, too. According to the latest news, the government is considering an expansion of CSOK support amounts.

The government's subsidised interest rate scheme is still active, but it is steadily losing from its importance. According to KSH data, the share of subsidised loans was 26 percent in 2013, 24 in 2014 and in the first half of 2015 only 14 percent within total loans. The average loan amount was HUF 5.5 million in the case of the subsidised loans and 4.8 million, for the non-subsidised ones. The average amount of the subsidised loans did not increase to 2014, in the case of the non-subsidised loans, the increase was 500,000.

9 - Split of the subsidised and market-based new, approved loans



Source: KSH (Central Statistics Office)

The reason behind the drop in the popularity of government-subsidised loans is that due to the lowering of the central bank's prime rate, the interest rate levels of the housing

loans also decreased and so, the loans with market-based rates frequently offer more favourable terms than the government-subsidised schemes. Low popularity is explained also by the fact that the subsidy does not apply to the total term to maturity, therefore, when the assistance period is over, the debtor shall pay larger installments. Predictability is very important for the clients, the long-term loans with 5-10 year interest rate periods are increasingly in demand. Government schemes with interest rate subsidy are less competitive with these requirements.

CHANGES IN VAT ON NEW HOMES

For the time being, a reduction in the VAT rate for newly-built homes appeared only as a promise of the government, but it might bring major changes on the market of both new homes and homes for resale. The upswing of the residential market is almost exclusively in the segment of homes for resale, the market of newly-built homes keeps struggling with structural problems. One of these problems is that from the gross price stated by the market, after the payment of the 27 percent VAT, the remaining revenues of the developers are so low that in many cases it makes no sense to launch a project. Hence, even though there would be demand for new homes, the statistics on housing show a diminution there. The cut of the VAT rate for new homes would mean a solution for the developers' returns, this way eliminating one of the important problems of development projects on the supply side.

From the present rate of 27 percent, it is obvious that the reduction of the VAT rate could be to 18, or to 5 percent. With high probability, the VAT rate cut would not appear in full in the reduction of the price for the home, the amount, representing 9 or 22 percent in the gross price of the home might be split into several portions. According to our preliminary estimates, about 40 per cent of the amount to become free might be used by the developers to increase profits, and so, the return calculations could return to the positive range. With the start of the projects, demand might increase for construction plots as well, and a portion of the amount to come from there, roughly 20 percent, would go for higher plot prices. Therefore, about 40 percent would remain to reduce the price of the newly built homes. A VAT rate of 18 percent would mean a price reduction of approximately 3.5-4 percent, a 5 percent rate would mean a reduction of 8.5-9 percent.

In the case of an 18 percent VAT rate, the reduction in the price of new homes would appear only in the short term, given that the price increase generated by demand expansion would correct this price reduction. In addition, with an 18 percent VAT rate, return would not improve on all projects to an extent that could make it worthwhile to launch these, therefore, the supply side could not exercise a strong pressure on prices. Still, with a 5 percent VAT rate, the price reduction would be substantial, and that could not be balanced within a year by demand turning toward newly completed homes, at the same time, far more projects would become economical, putting pressure on prices of the supply side. This would already imply a price decrease in the longer term in the new-home segment, given that due to the large volume of projects, developers will have to compete in pricing.

The drop in the VAT rates for new homes would have an effect on the market of homes for resale as well, given that several buyers are compelled to buy a home from owners, due to the insufficient supply of new homes. So, the market of new homes would draw buyers away from the market of homes for resale, and that would affect the evolution of prices. An 18 percent VAT rate will have a much smaller effect on the market of homes for resale, but a 5 percent rate would slow down noticeably the price increase on that market.

The VAT rate cut would give an impetus to the segment of newly built homes, and the launch of new construction projects would support economic growth. And a rate cut to 5 percent could bring a more important realignment on the market of homes for resale.

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 market. Their volume altogether amounted to 1455.9 billion forints. Within the total stock of mortgage loans, this means a share of 24.4%, that is, every fourth loan had a debt overdue for more than 90 days. Taking account of credit institutions only, i.e. excluding financial companies, including debt collection agencies, among others, the share of the non-performing loans was 20.1 percent, which is an explicitly high level.

Given that the collaterals behind retail mortgage loans typically are residential properties, this high ratio of non-performing loans also means that the number of properties where the banks intend to recover their claims from the value of the property is very important. Banks have no interest in pouring these properties onto the market, quickly, simultaneously, given that the reduction in property prices would also reduce the value of the properties provided as collaterals behind the existing, performing loans. That is, for the time being, 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 cleanup of the bank portfolios from these properties will take several years. Even though with the development of the market, the expansion of demand, the absorption also improves, that is, cleanup of the portfolio might be increasingly fast.

From September 2015, the scheme of private bankruptcy proceedings is accessible, among others, for mortgage loan debtors with overdue arrears, too. A condition for entering that scheme is that the arrears shall be between 2 and 60 million, representing 100-200 percent of the net assets. Another condition is that the amount overdue by more than 90 days shall be at least half a million forints. From the housing market's perspective, the scheme of private bankruptcy might also reduce the number of homes that banks or owners are forced to sell.

However, the rules of private bankruptcy determine a reasonable claim for housing, by types of property and size of the homes, setting a maximum value, and the home owned by the family applying for private bankruptcy shall not exceed that level. If, at the time of the application, the family lives in a property that is larger and/or more expensive than that reasonable level, they shall move. This specification increases the offer, but it is also in the interests of debtors to sell their homes at market prices, in order not to put pressure on the prices, whilst the debtors also appear on the buying side.

3 - Market value of residential property eligible for consideration in private bankruptcy proceedings

num. of rooms	size (sqm)		Budapest	Conurbation	city with county rights	city	village
	from	to					
1	25	35	8,000,000 HUF	7,200,000 HUF	5,200,000 HUF	5,100,000 HUF	4,000,000 HUF
1.5	35	50	11,250,000 HUF	9,200,000 HUF	7,600,000 HUF	7,000,000 HUF	4,500,000 HUF
2	45	60	12,750,000 HUF	10,200,000 HUF	7,700,000 HUF	7,600,000 HUF	5,500,000 HUF
2.5	55	70	14,750,000 HUF	11,000,000 HUF	9,300,000 HUF	8,100,000 HUF	6,000,000 HUF
3	65	80	17,000,000 HUF	13,000,000 HUF	11,000,000 HUF	10,000,000 HUF	7,000,000 HUF
3.5	75	90	22,000,000 HUF	15,500,000 HUF	14,000,000 HUF	12,000,000 HUF	7,500,000 HUF
4	85	105	26,000,000 HUF	17,500,000 HUF	16,000,000 HUF	13,000,000 HUF	8,500,000 HUF

Source: Otthon Centrum

What can be seen at a first glance is that even though the scheme of private bankruptcy makes, very appropriately, distinctions by types of locations (capital city, city with county

rights, city/towns, village) in the reasonable claim for a home, no differentiation exists between the eastern and western halves of the country, even if in property prices, there is a difference between the two halves of the country. This means that there is a difference in the quality of reasonable properties between these parts of the country.

The effect of private bankruptcy on the housing market cannot be assessed as yet, given that we have very little probationary information. In theory, it could result in a realignment from higher-priced homes to the reasonable choices, but without knowledge of the number of applicants for private bankruptcy, the magnitude of the impact cannot be quantified.



MARKET OF NEWLY-BUILT HOMES

KEY FINDINGS

Slight improvement:

According to the experience of Otthon Centrum, in the first three quarters of 2015, the number of newly-built homes already increased, with newly-built homes representing in total sales a 1-2 percentage points higher share, to the same period of last year. The stock of completed but unsold newly-built homes is decreasing continuously, at the end of first-half 2015, the unsold stock was already below 1,000. Supply is shrinking and, on the basis of housing construction statistics, it cannot be refreshed, with slightly more than 800 new homes built for sale completed in the first nine months.

Limitations on the offer side:

From all people who show interest, roughly 15 percent are looking for a newly-built flat in Budapest and in the countryside, their share is about 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. On the offer side, with a VAT rate of 27 percent, the return on many projects is in the red, negative range, while more than one-quarter of the revenue is taken away by VAT. From the remaining net amount, after the deduction of financing, land, construction and other costs, a return that would meet the expectations of the investors cannot be achieved.

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 whether the property in a given transaction was a new or for resale, on the basis of the fee allowance applicable to the purchase of new homes. 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 in new homes.

Our statements regarding the Budapest market of newly-built homes are based, in addition to KSH data, on the project database of Otthon Centrum. This database contains the data of newly-built homes offered for sale, as well as the data of projects as at the date of the semiannual updates, back

to the year 2005. These include, among others, the number of sale transactions, the stock of completed, but unsold homes and the main characteristics of the homes.

The revival observed in the sale of newly-built homes in the first quarter of 2015 persisted in the other quarters as well; according to the experience of Otthon Centrum, the share of newly-built homes within total sales is 1-2 percentage points higher, to the same period of 2014. Even so, the share of new-homes is marginal within total sales. Based on KSH statistics, considered to be lower estimates, the share of new homes already increased somewhat in 2014, both at the country level and in the capital. According to our estimate for 2015, this share continues to increase, without significant improvement.

The stock of completed but unsold newly-built homes is decreasing continuously, at the end of first-half 2015, the unsold stock was already below 1,000. Supply is shrinking and, on the basis of housing construction statistics, it cannot be refreshed, with slightly more than 800 new homes built for sale completed in the first nine months.

4 - Number of the newly-built homes and their share in total transactions

number of sale& purchase transactions (#)	2008	2009	2010	2011	2012	2013	2014	2015 estimate
home for resale	140,000	82,900	85,500	83,900	83,323	86,418	110,480	150,000
new-home *	14,100	8,300	4,800	3,900	2,634	2,295	3,309	4,300
home for resale, Budapest	34,504	20,674	24,714	22,578	23,916	25,275	34,130	50,300
new-home, Budapest *	5,798	3,064	2,015	1,551	1,124	1,043	1,450	2,214
share of new-home sales	9.15%	9.10%	5.32%	4.44%	3.06%	2.59%	2.91%	2.79%
share of new-home sales, Budapest	14.39%	12.91%	7.54%	6.43%	4.49%	3.96%	4.08%	4.22%

Source: KSH, Otthon Centrum
* lower estimate

This situation leads to structural problems on the market of newly-built homes. The very important expansion on the demand side is concentrated, almost in full, on the market of homes for resale. Among those who are looking for a home via Otthon Centrum, the number of those who are looking explicitly for new homes or explicitly for homes for resale is not significant. Analysing the search preferences (taking into account those who are looking explicitly for new homes and those for whom it is irrelevant whether the property is new or occupied, but their search preferences are similar to those of the new-home searchers) we can see that roughly 15 percent of all these people are looking for a newly-built flat in Budapest and in the countryside, their share is about 10 percent. Comparing with the share of newly-built homes in total sales, we can see that there is demand for newly-built homes, but this cannot be realised in transactions with a static, pre-picked stock of homes. Still, the return of buyers' confidence is already noticeable, and Otthon Centrum has knowledge of several projects where many homes were sold right from the blueprint, prior to the start of construction.

On the supply side, in spite of the visible expansion of demand, no major investments are launched for the time being, as this is evident from the housing construction statistics. The reason for that can be identified in the return calculations of the projects. With a VAT rate of 27 percent, the return on many projects is in the red, negative range, while more than one-quarter of the revenue is taken away by VAT. From the remaining net amount, after the deduction of financing, land, construction and other costs, a return that would meet the expectations of the investors cannot be achieved. This is why, even though the demand side recuperated and several government measures to boost demand are also in place, whilst financing costs keep decreasing, projects are not started in large numbers. And the

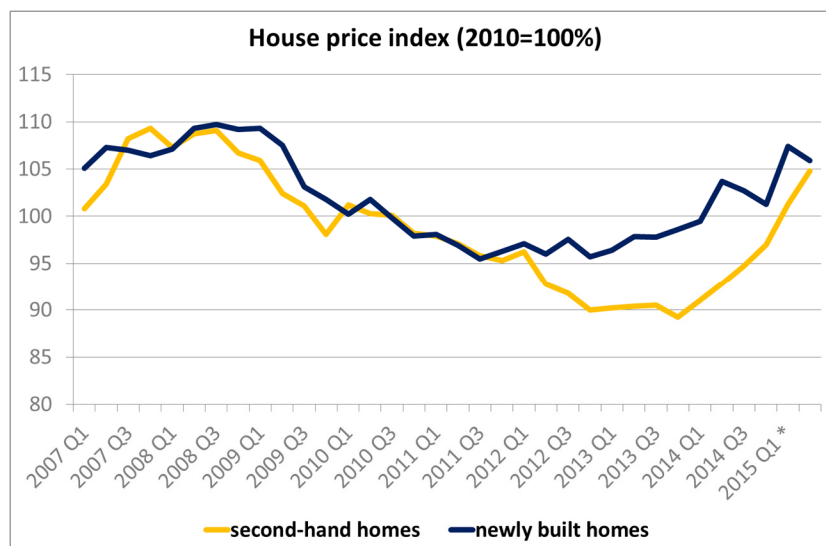
newly launched projects existing on the market are not in a position, due to their size, characteristics, quality, to achieve selling prices that would make them profitable. The VAT rate cut for new homes could mean a solution for this, and this came up already on the government side, but no exact information is available as yet. We deal with this question in detail in the following chapter.

Increasingly often, one can experience that the completed homes are used by the developers for lease. This means that these homes are either fully out of the market, or the developer offers these for sale, together with the tenant. In such cases, renting contracts for determined periods are frequent, where the tenant's rights to remain in the property is ensured in the contract, also for the case of an eventual ownership change. By the way, this might be attractive for buyers who are looking for investment opportunities, given that the home can produce income immediately.

According to KSH statistics, the average price of a newly-built home in Budapest is 19.5 million forints, in the cities of the countryside the price of an average newly-built home was about 15.5 million forints in the first two quarters of 2015. Looking at the price per square meter, in the capital city this means an average unit price of 359,000 forints, in the cities of the countryside the unit price of a new home is in the range of 250-280,000 forints per square meter.

What makes difficult to follow the evolution of the prices for newly-built homes is that in recent years, a very low number of transactions was registered, and therefore, the evolution of the price index is quite volatile. On the basis of KSH's housing price index for newly-built homes, the nadir was reached in 2011 on the market. Since that time, prices already started to increase and, with large fluctuations, they were already 11 percent higher in mid-2015.

10 - Housing price indices in Hungary



Source: KSH, Otthon Centrum



MARKET OF HOMES FROM OWNERS

KEY FINDINGS

Permanent growth:

In 2014, turnover on the Hungarian market of residential properties expanded by 28 percent, and this year an even larger expansion of about 35-40% is evolving, based on sales data in the first three quarters. For this year, we forecast a transaction number of about 155,000 and this is only slightly behind the pre-crisis level. In the coming years, with regard to the present dynamics, the housing market will most probably exceed this level, and this forecasts stable growth for 3-4 years.

Prices on the rise:

In the segment of brick homes, the price increase was about 20 percent in the capital city and 10-15 percent in the countryside in the first three quarters of this year, as compared to last year. In the case of block homes in Budapest, the increase is well above 20 percent, but it is in the range of 10-20 percent in the countryside, too. In the segment of family houses, the price increase is about 10 percent in the capital city, and even lower in the countryside, in the range of 5-8 percent.

Faster selling:

In the first nine months of 2015, selling times of occupied brick-built and block homes dropped drastically. On national average, the time required for the sale of brick homes dropped from 4 to 3 months, and in the case of block homes, instead of 3 months in 2014, the owner shall calculate with a selling time of 1.5 months. In the case of family houses, selling times stagnated.

In this chapter, we present the main trends on the market of homes for resale. Detailed analyses on the market of homes for resale are provided in publication, [Lakáspiaci Tanácsadó](#).

TURNOVER

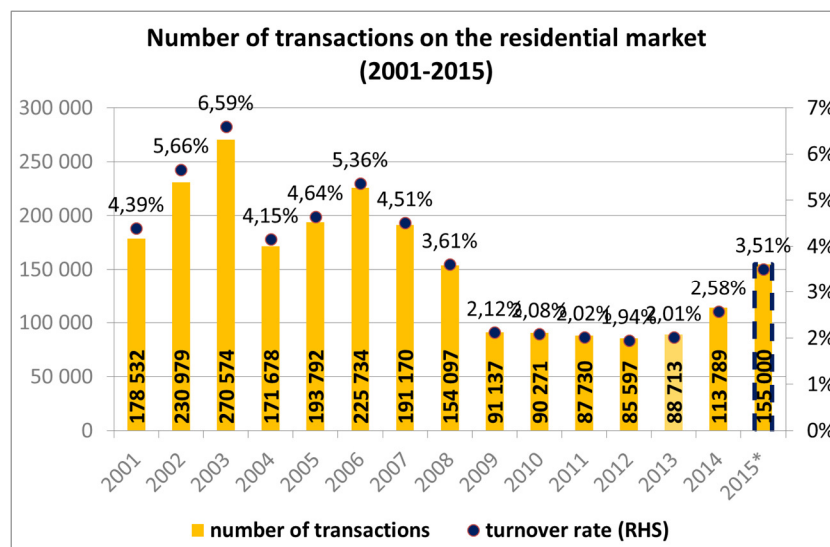
In 2014, turnover on the Hungarian market of residential properties expanded by 28 percent, and this year an even larger expansion of about 35-40% is evolving, based on

sales data in the first three quarters. For this year, we forecast a transaction number of about 155,000 and this is only slightly behind the pre-crisis level. The equilibrium level of the housing market, assuming a healthy economic and financing environment, would be at around 170-180,000 transactions per year. In the coming years, with regard to the present dynamics, the housing market will most probably exceed this level, and this forecasts stable growth for 3-4 years. It is probable that the equilibrium level will be reached only in a couple of years from now, with the calmdown of growth, moving from above.

Growth is not limited to Budapest, the upswing can be sensed equally in the eastern and western halves of the country, but a significant increment can be seen in the capital city and, in particular, in the counties on the west, but in the larger eastern cities as well, we registered a substantial expansion of the turnover. Differences in the increase of growth can be seen not so much in an East-West comparison, but rather between the types of the locations and in terms of size in the different counties. There are two main drivers of growth in the background.

The drivers of growth did not change since 2014. On the one hand, investors brought some very fast increase to the market, as many of them purchase homes for investment, from Sopron to Nyíregyháza. On the other hand, the purchases postponed because of the crisis bring many buyers to the market who purchase for own use. The speculative purchases of investors give a far more important impetus to the market, because each of these buyers want to purchase as soon as possible, in order to make use of future price increases for their own benefit. This also means that this demand is very concentrated, both in time and space. In the case of those who buy for own use, speculation is not typical, therefore, the time pressure is also lower.

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



Source: KSH, Otthon Centrum
* Otthon Centrum estimate

Buyers for own use, due to the several hundred thousands of postponed purchases in the crisis years, provide a very stable ground for growth for the housing market, on the horizon of several years. This basis for growth can be strengthened by cheap housing loans, as well as by government support, even in a case where the waive of investors would be scaled down in the next year. The number of investors is limited, and the entrance barrier is also in the range of 10-20 million on the housing market, therefore, the significant rate of increase generated by them will not last for long years. If investors turn toward bank loans to finance their investment-purpose purchases, that would overwrite this scheme. With the yields of 7-10 percent at present, this might be a rational decision.

EVOLUTION OF THE PRICES

The boom based on investors also generated a major price increase on the property market, primarily in the case of properties they are looking for. In the segment of brick homes, the price increase was about 20 percent in the capital city and 10-15 percent in the countryside in the first three quarters of this year, as compared to last year. In the case of block homes in Budapest, the increase is well above 20 percent, but it is in the range of 10-20 percent in the countryside, too. The reason behind such growth rates for block homes is that these are relatively cheap in a comparison with brick-built homes for resale, which means that these homes are accessible also for investors with less funds. Therefore, significant demand is present for this type of properties. In the segment of the family homes, the price increase is far more moderate, given that typically people buying for own use appear here. The price increase is about 10 percent in the capital city, and even lower in the countryside, in the range of 5-8 percent. The difference in the price increase rates between family houses and flats shows very well the difference of the impact that investors and buyers for own use exercise on the market.

5 - Average selling prices per square meter by type of property and areas, first three quarters of 2015 (thousand forints)

1_3 quarters of 2015 (thHUF)	brick-built home for resale	block-built home for resale	brick- built house for resale
Budapest	348	243	239
East	167	140	145
West	189	175	140
Pest County	209	165	176

Source: Otthon Centrum

According to KSH data, at the end of 2014, for the whole of the country, properties were already 8 percent more expensive than in the fourth quarter of 2013, the nadir. In the first quarter of 2015, for the whole of the country, residential property prices increased already by 11 percent.

PRICE BARGAIN

For calculation of the price bargain, we investigate the total price allowance granted in the selling process. In the case of the total price allowance, we compare the price indicated by the owner when the assignment is given to the actual selling price. The difference between these two prices consists of the pricing bargain in the sale, on the one hand, to be reached by the buyer in the framework of the contracting process, and on the other hand, of the price reductions made by the seller in the framework of the selling process. A larger portion of the total price allowance comes from the price bargain in the contracting process, but a weakening in the buyer's positions shows itself in both components.

6 - Extent of the total price-cutting by type of property, 2015 1-3 quarters

type of property	total price allowance	of which: upon signing the contract
brick-built home for resale	8.02%	5.73%
brick-built house for resale	13.58%	9.34%
block-built home for resale	6.27%	4.83%

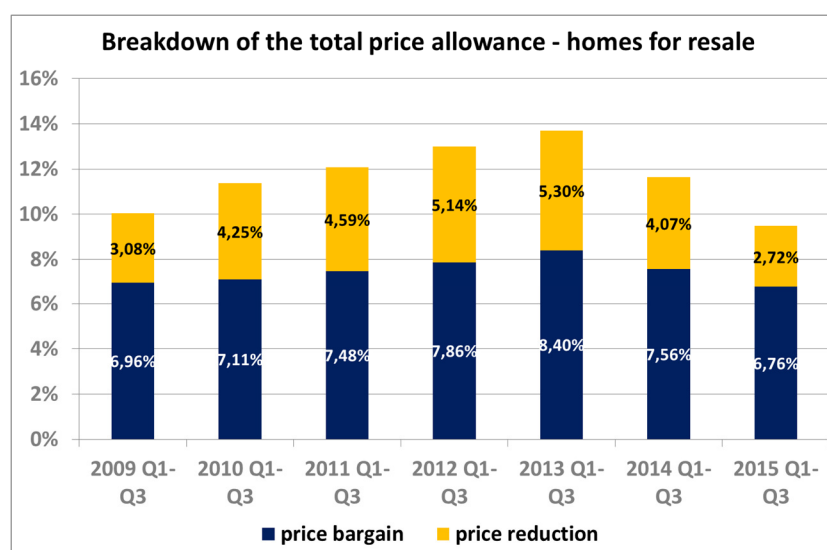
Source: Otthon Centrum

Price-cutting was the lowest, based on country-wide average, in the case of blockhomes in the first three quarters 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.

On the basis of data on properties sold in the first nine months of 2015, buyers have less and less room in the price bargain. The size of the total price allowance decreased to 9.5 percent, which is more than 4 percentage points below than the extent of bargain measured when the crisis bottomed out. This year, the playing field for buyers is already narrower than in 2009, the first full, crisis-struck year, and this is a clear sign that the market is recuperating.

12 – Breakdown of the total price allowance, in the first three quarters of the years 2009-2015



Source: Otthon Centrum

The drop in the offered prices is much larger than the decrease 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.

SELLING TIME

In the first nine months of 2015, selling times of occupied brick-built and block homes dropped drastically. On national average, the time required for the sale of brick homes dropped from 4 to 3 months, and in the case of block homes, instead of 3 months in 2014, the owner shall calculate with a selling time of 1.5 months. In the case of family houses, selling times stagnated, because in this segment, no important investor pressure can be sensed and that reduced significantly the selling times of homes in the condominium houses.

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 their differences are less in number, and this shortens the time required for comparisons and decide about the purchase. In the capital city, the average selling time was just one month.

77 Average selling times in days, by type of properties

type of property	2014	1_3 Q of 2015
Brick-built home for resale	123	89
Block-built home for resale	83	47
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 this.



MARKET OF RENTED HOMES

KEY FINDINGS

Rentals on the rise:

The first nine months of 2015 brought a very significant increase in rentals. Rentals of occupied brick homes increased substantially in the western part of the country and Budapest, rentals of block homes in almost all larger cities.

Yields:

In the case of properties purchased for the purpose of lease, over an investment period of 10 years, the yields achievable are between 7 and 10 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 lease transactions administered through the Otthon Centrum network.

Further information on the market of rented property is available in our publication [Lakáspiaci Tanácsadó / Residential Market Adviser](#).

EVOLUTION OF RENTALS

The first nine months of 2015 brought a very significant increase in rentals. Rentals of occupied brick homes increased substantially in the western part of the country and Budapest, rentals of block homes in almost all larger cities.

8 - Average monthly rentals per square meter, by type of properties

type of property	2010	2011	2012	2013	2014	1-3 Q of 2015
Brick-built home for resale	1,390 HUF	1,310 HUF	1,370 HUF	1,440 HUF	1,480 HUF	1,900 HUF
Block-built home for resale	930 HUF	970 HUF	1,000 HUF	1,070 HUF	1,150 HUF	1,400 HUF
Brick-built house for resale	970 HUF	970 HUF	960 HUF	1,000 HUF	1,040 HUF	1,140 HUF

Source: Otthon Centrum

The reasons behind this upturn are similar to the recovery of sale and purchase: the improvement in the confidence of the households, the implementation of postponed moves. Taking into consideration the yields achievable from leases, at present, it makes more sense to buy on the residential market, that is, demand comes from young people, job market entrants and those who move because of their job – people who cannot pay the price of a home, but they already are able to change their residence. On this basis, the price rise shall not remain at the present levels in the long run, because those who were forced to opt for renting might become home owners within short.

YIELDS

One of the most frequently seen investment strategies 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, by calculating a theoretical yield.

In the model, we calculated with an investment period of 10 years, which means that in the first year, the home purchased in 2015 is leased by its new owner for ten years and, at the end of the tenth year, it is sold. We modified the parameters of the model as compared to previous periods, following the ongoing change on the housing market, in order to provide more precise estimate for the expectable yields. In the model, we used the following assumptions:

- *In the first 4 years of the investment, the property's nominal value increases above inflation, after that, it maintains its real value. For the whole of the 10 years, we calculated with a total increase of 16 per cent in 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 entirely from own funds.*
- *For the 10 years, we set an average inflation of 2.77 percent.*
- *From the second year, the owner spends, in real terms, one per cent of the property's value on maintenance, and in the fifth and tenth years (the year of its sale), a fivefold of that amount, for refurbishment.*
- *The amount of the tax payable on the annual revenues from rentals was calculated with the current PIT level of 16 percent. Should the annual revenue from rental fees exceed 1 million forints, we assumed the payment of an additional 14 per cent in EHO (health care contribution).*
- *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 to be leased during all those 10 years, but in order to reflect the risks of a lease, we assumed that it is unoccupied for one month each year, not generating income.*

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 three quarters of 2015 and the average rental fees per square meter in this same period. Yields for the different properties are around 7-10 percent.

9 - Yields achievable through lease in the case of some types of renting, being looked for in 1-3Q2015

Location	Type of property	ground area	yield
Budapest	block-built home for resale	50 sqm	8.23%
Budapest	brick-built home for resale	40 sqm	7.18%
Budapest	brick-built home for resale	60 sqm	6.48%
western half of the country	brick-built home for resale	60 sqm	8.72%
eastern half of the country	block-built home for resale	50 sqm	10.31%
Pest County	brick-built home for resale	100 sqm	7.48%

Source: Otthon Centrum



LAND MARKET

KEY FINDINGS

Turnover:

Based on Otthon Centrum's experience, the market of construction plots suitable for own use significantly expanded from 2013 to 2014, but in the first nine months of 2015, we registered a turnover increase of only 15-20 percent. Turnover of the larger plots suitable for property development increased significantly in the first nine months of this year, the turnover is 50 percent higher than last year.

Land prices:

The price of construction plots suitable for own use was about 28-30,000 forints per square meter in the capital city in the first three quarters of 2015. This means a roughly 10 percent increase to the same period of last year. In the eastern counties, one square meter of a construction plot costed 10-12,000 forints, whilst in the western counties, land was a bit cheaper, traded at the level of 8-10,000 forints. Plot prices increased also in the countryside, in a comparison to last year.

TURNOVER

Based on Otthon Centrum's experience, the market of construction plots suitable for own use significantly expanded from 2013 to 2014, but in the first nine months of 2015, we registered a turnover increase of only 15-20 percent. Demand for plots suitable for construction for own use is attributable to the general upturn on the market, and the number of construction permits issued also reflects this trend.

Turnover of the larger plots suitable for property development increased significantly in the first nine months of this year, the turnover is 50 percent higher than last year. The rate of the increase is significant, but there is some major basis effect in the background, given that housing construction almost completely stopped in the crisis years.

LAND PRICES

The price of construction plots suitable for own use was about 28-30,000 forints per square meter in the capital city in the first three quarters of 2015. This means a roughly 10 percent increase to the same period of last year. In the eastern counties, one square meter of a construction plot costed 10-12,000 forints, whilst in the western counties, land was a bit cheaper, traded at the level of 8-10,000 forints. Plot prices increased also in the countryside, in a comparison to last year.

In the case of the plots for projects, price increase is also very dynamic, in line with the expansion rate of demand. In previous years, the notions of price were very far for demand and offer, and this resulted in a low number of transactions, where the seller had to accept significant concessions. With the recovery, the seller's and buyer's notions are much closer. In the case of land plots for development, the planned VAT rate cut for new homes may further increase the land prices.

In the table below, we show data on the sale and purchase of land via Otthon Centrum in a couple of districts of Budapest and at locations in the countryside.

10 – Prices of urban-area land in the case of some transactions performed in the 1-3 quarters of 2015

Plot size (sqm)	Price	Location
1018	HUF 21 m	Budapest, District III, Csilaghegy
1236	HUF 53.5 m	Budapest, District XI, Hosszúrét
870	HUF 13.5 m	Budapest, District XVIII, Almáskert
1056	HUF 21 m	Budapest, District XXII, Baross Gábor telep
751	HUF 11.3 m	Debrecen, Fészek Lakópark
765	HUF 16 m	Győr, Révfalu
1505	HUF 13.3 m	Sopron
614	HUF 3.8 m	Göd
1480	HUF 14.5 m	Szentendre, Pismány
720	HUF 6.3 m	Érd

Source: Otthon Centrum

Upon request, we also prepare structured reports on the property market;
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