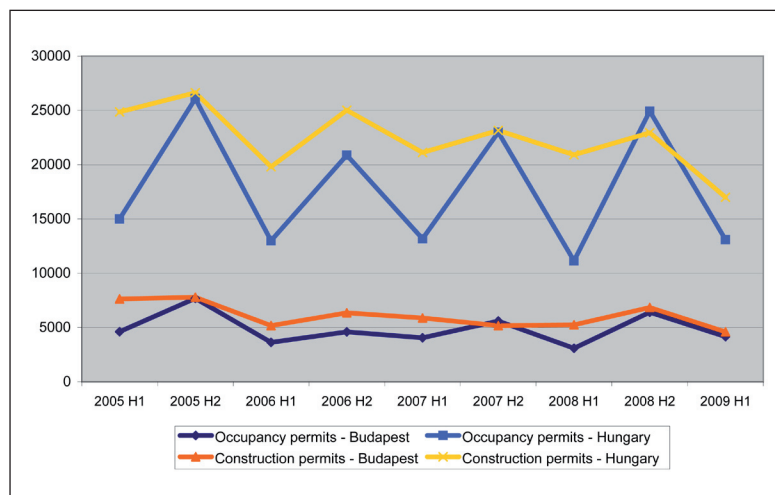


From among the structural processes, foreseen earlier, on the housing market having become one of focus points of government measures under the impact of the crisis, there are several that can already be evidenced, whilst some other ones show their effects only with a certain lag. The most widely-spread expectation, a reduction in prices, cannot be observed on the market as a whole yet, but at the level of life situations, it is observable, with an increasing frequency.

CONSTRUCTION VOLUME

According to data of the Central Statistical Office, in the first half of 2009, occupancy permits were granted to 13,000 homes and, construction permits were issued for 17,000 new homes. The number of newly occupied homes is 16% more, the number of new permits is 19% less than in the first half of 2008. The more than 35% increase in the occupation permits in Budapest is outstanding in a comparison with the nationwide average; almost one-third of the new homes were built in the capital city. An above-average increase in the number of new permits was observed also in Budapest and in the county capitals. Still, at the county level – with the exception of the Bács-Kiskun, Somogy and Szabolcs-Szatmár-Bereg counties – a major drop occurred, all over the country.

Number of construction and occupancy permits, semi-annually



Source: Central Statistical Office

After a 15% increase registered in the first quarter of 2009, in the second quarter of the year, 18% more homes received occupation permits, as compared to the same period of the previous year. At the same time, in the number of new construction permits, an accelerating decline was experienced: the decrease was 7% in the first quarter of the year, 18% in the second one. This latter indicator shows well the lack of confidence of home builders about the future.

Whilst nationwide, the share of entrepreneurs within the community of builders increased significantly, to 50%, in Budapest, the role of investors decreased in the last year (77%, at present). On this basis, it is quite surprising that the average ground area of homes built in the capital city decreased by 6 sqm, to 66 sqm, because until now, statistically, there was a clear inverse proportionality between the share of entrepreneurs and the size of homes.

HOUSING POLICY, BANK FINANCING

Reviewing government-level measures concerning the housing market, it can be seen that under the impact of the crisis, the first half of the year was a very hectic period. Main steps taken in terms of housing policy were aimed at providing assistance to housing loan debtors, with a more transparent operation, on the one hand, and a revision of and soberness about the existing housing support system. It is not surprising that one of the focal points for crisis management by the government represented housing loans. A point is that, according to our calculations, the share of "real estate industry" (that is, market-based construction of buildings and the totality of related services) in the national economy is about 11%: this is its share in both the GDP and the number of employees.

In order to avoid credit defaults, financial institutions (and even more so, their supervising authorities) laid emphasis on calling the attention of debtors to several available means to alleviate payments in the case where they are unable to pay the instalments: they may request an extension of the maturity, a preferential interest rate, the determination of an established, fixed amount of instalments, a deferred payment or even early redemption, as well as a change of the underlying currency. As part of the package of solidarity measures launched by the government, housing loan debtors in a difficult situation may apply for bridge-over loans, supported by state guarantee, at the bank that granted the initial loan. Since the end of July, this is allowed also to those who did not lose their job. Due to the fact that the government set a dozen of conditions for such guarantees (such as reasonable size, readiness to pay monthly instalments, rate of increase in monthly instalments, ratio of the instalment to income, etc.), it is questionable how many people will make use of this possibility.

The Parliament modified the Financial Institutions Act, with an important majority, in order to eliminate the wide range of possibilities for unilateral contract modification by banks. Accordingly, a change detrimental for the customer is allowed only subject to an agreement with the bank, in a contract specifying in detail the terms of such change. In the meantime, competent bodies are engaged in consultations about the formulation of a behavioural code for banks. The government also gave pre-emption rights for local municipalities, regarding forced sale of properties, together with the possibility that local government can apply for loans serving this purpose, without contribution with their own funds.

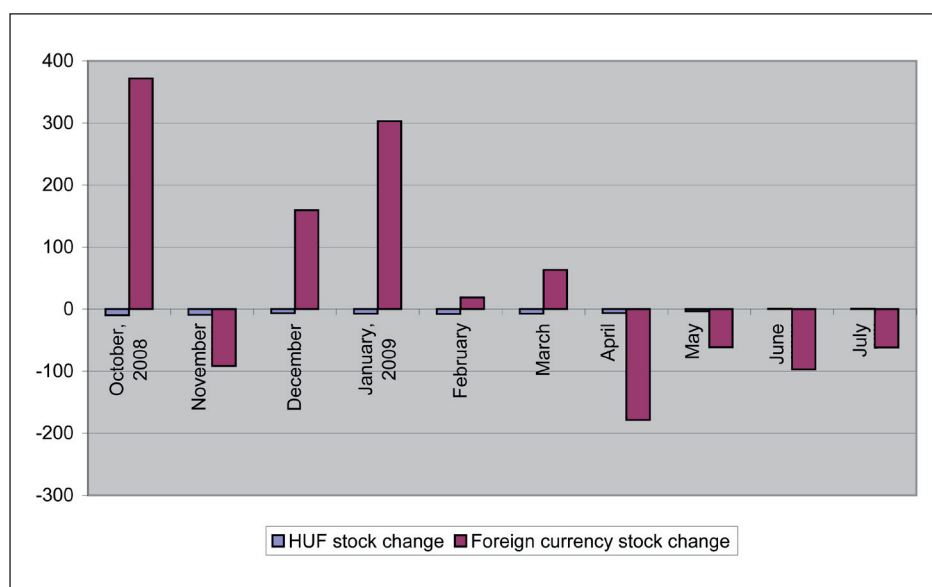
In order to protect users of housing loans, the Hungarian Financial Supervisory Authority urges to prepare a legislative regulation for agency activities and to develop a more transparent system within this industry. Clearly, there is an increase in demand for intermediaries, because with the use of agents, the different products become comparable and, at the same time, the two sales channels (directly by the bank and through intermediaries) supplement each other very well, because in the credit scope of the intermediaries, access is ensured to the full product range of all major banks and financial institutions. In the opinion of Otthon Centrum Credit Centre, this sort of regulation is beneficial in any case, but a cardinal issue is that it shall not produce a competitive disadvantage for agency networks operating with well-trained advisors and already providing quality services.

In the Parliament, there is full accord about the introduction of the "Sure Hand" institution in the construction industry, in October. Essentially, this is about employing a collateral manager, above certain amounts, to guarantee the payment of the consideration for the work done, in order to avoid circular debt. This institution operates successfully in foreign countries (e.g. in Austria). As part of the acceleration package for the construction industry, in addition, the simplified issue of construction permits was also considered.

In April, the government announced that the so-called “szocpol” support (social policy support) for children will cease from the 1st of July, and no more forint loans with interest rate reductions from government funding shall be available. On the basis of experiences of Otthon Centrum Credit Centre, until now, 18-20% of all borrowers made use of the government-supported facilities to be terminated. Due to the expected soberness, interest towards housing loans increased in the second quarter of the year, because all those who wanted to make use of such assistance, amounting sometimes to several million forints or profit from the lower redemption instalments, had to submit their loan requests by the 30th of June.

Even though in the data of the chart below, exchange rate fluctuations also play a role (given that the National Bank of Hungary records the stock of currency loans in forints), the chart shows well that parallel to a reduction in the stock of currency loans starting in April, the forint-denominated stock turned into a positive figure from July – even if only by a volume of a few hundred millions. According to the NBH report, a spectacular expansion took place in euro-based housing loans in the first half of the year. The good news for customers is that, accordingly, in May, the banks started to push down the interest rates of euro-based loans. Hence, the average rate in July stood at 7.43%. For forint loans, the trend is similar, with an average rate of 11.81%.

Monthly changes in the stock of retail residential loans, since the beginning of the crisis (HUF bln)



Source: National Bank of Hungary

Still in June, the government announced that, from October, the launch of a new subsidised forint loan scheme is expected. According to the draft available to the public, this scheme shall provide assistance to young people, families with children, in the purchase of newly constructed homes. The housing price limit, eligible for support (excluding land, 25 million HUF in Budapest and the county capitals, 20 million elsewhere) is sufficiently favourable, but the subsidised loan amount can amount only to half of that. In the opinion of market experts, even if the new loan form will be beneficial, the return of a wide range of potential customers (who disappeared from the market when assistance ceased to exist from July) cannot be expected.

In addition to the end of subsidised loan forms, two more decisions roughed up home buyers in the first six months of the year. In May, the Parliament approved the increase of VAT from the 1st of July. This modification concerns only newly built homes, because there, the investor charges a net price, increased by VAT, and the modification from 20 to 25% means a price increase of 4.2%. Therefore, in any case, it was sound to conclude a final contract prior to the tax increase and to pay a larger portion of the remaining purchase price, because this way, the price increase could be avoided in full.

On the 29th of June, the Parliament approved the law on property tax. The charge, to be introduced next year makes all properties taxable above a market value of 30 million HUF (both for private individuals and corporate owners) in the case, if that is the permanent residence of the owner. In the case of a second property, the value limit for taxation is 15 million HUF, and if somebody has more than two properties registered, from the third one, these are all chargeable. The extent of the tax is 0.25% up to the value of 30 million HUF, 0.35% between 30 and 50 million HUF, and for the portion above 50 million HUF, the tax is 0.5%.

As a handhold for the determination of value, the law provides a table, where average prices and uniform value adjustment factors are listed, at Budapest district and county levels. Although the value of the property shall be set by the owner as an estimate, the tax statement shall indicate the property, if it is taxable on the basis of the calculated value. According to an analysis we performed on the basis of market transactions, between the price calculated with average unit prices per area and the actual market price, in a significant portion of cases, there is a large difference. At any rate, we think it is reasonable to define the average prices at levels below the district and county levels, with more segmentation. Not necessarily a re-introduction of the street-level breakdown applied for luxury tax is meant, but by county and districts, due to the very differentiated picture on the residential market, it would be reasonable, by all means to determine 3-4 separate zones, with an average price per square meter, typical for each. This is how to avoid taxation of properties that, on the basis of market value, are not taxable.

In our opinion, the new burden (if introduced at all, because the opposition keeps attacking it since the very beginning and declares that it shall be banned as soon as they win the 2010 parliamentary elections) will not make a major change in the present image of the real estate market. Even though there will be surely people for whom this will be the ‘last drop in the sea of rising burdens’, we do not expect taxable properties to appear on the market en masse. That said, it is exactly in the case of homes above 30 millions, where sellers better concede from the price. In the same way, developers will watch out to set the prices on the price lists, wherever possible, at levels below the chargeable limit.

Also, demand from buyers for renting purpose might decrease in the category above 30 million, because for an average property, an amount corresponding to about one month’s rental shall be paid in taxes. But on the whole, we believe that the market-decreasing effect of the elimination of szocpol-support and state interest rate subsidies since July, as well as the increase of VAT to 25% for new homes shall have a far more significant than the introduction of the property tax.

MARKET OF THE NEWLY BUILT HOMES

By definition, the market of newly built homes is seriously affected by the crisis and, from July, this is further enhanced by the effect of ceased assistance and the increase in VAT (with a respective increase in housing prices). This latter amendment concerns only new homes, because this is where the investor establishes net prices with VAT added; this is exactly because of such contingencies that already the preliminary contract contains a provision of “net price + VAT in effect”.

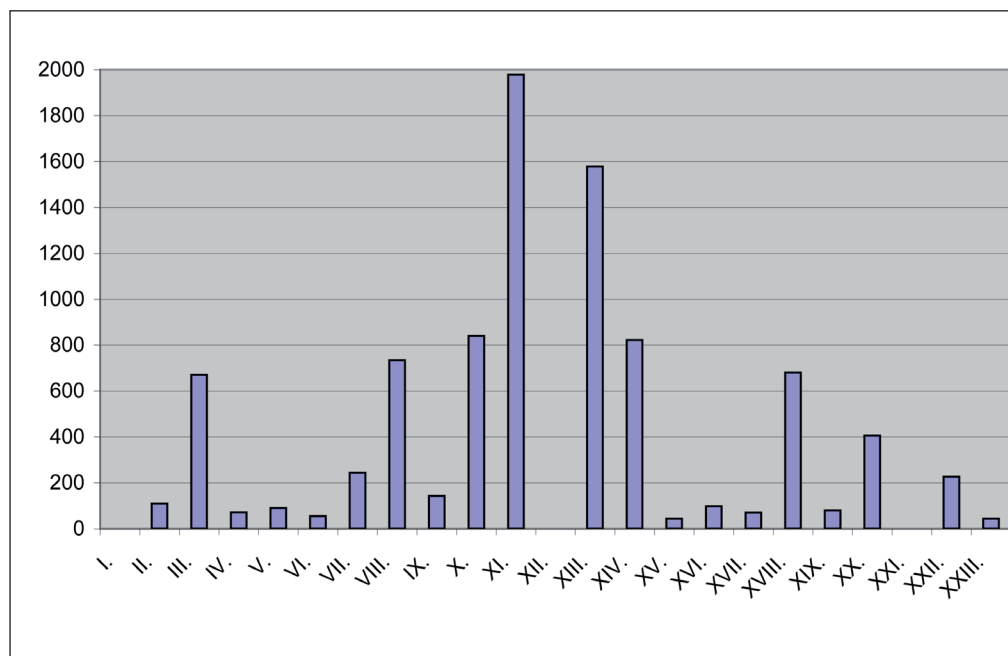
In the first half of the year, investors launched a strong campaign to urge potential buyers to sign contracts at latest the 30th of June. Very soon, it became obvious that the higher VAT is linked to financial settlement, that is, it applies

to all payments of the purchase price portions, independently from the fact that the contract might have been concluded already in the first half of the year (or earlier). In the present market situation, this meant strong bargaining position for the buyer, realistically exploitable against the investor in many cases. The point is that those who could achieve at the investor to pay, prior to the 1st of July, disregarding any previously set payment schedules, a larger portion of the price for the home, could use a lower price, whilst the investor – due to the amount arriving to their account earlier – realised an interest rate gain.

Actually, in the second quarter of the year, there was an increase in the interest towards paying, before the VAT increase, an as-large-as-possible portion of the purchase price, where this was made possible, under development projects in the completion phase or close it. Moreover, homes in the inventories, that is, already completed but not yet sold, became attractive, where it was possible to pay the full purchase price as well.

Home buyers were not in such a good position for negotiations on the Hungarian market, since a long time. Sellers of the residential projects try everything possible, offer unbelievable sales actions, in order to avoid a freezing of their projects. These include, under circumstances, price allowances of up to 15%. Even though investors attempted to let buyers pay for the VAT-induced price increase, due to the slack market, in most cases, this was not a realistic expectation. With their often very innovative marketing campaigns, developers are trying to avoid a situation where they are compelled to swallow additional costs, in full. Several companies promoted an offer, according to which the customer shall only rent the selected home and will have time to apply for a loan in one or two years, to purchase the home, with the rental already paid counted in. One of the investors even proposed to take over any additional costs above a certain interest rate level, and to pay for current expenses relating to the home, for the same period.

Number of homes in condominium houses planned for delivery in 2009 by Budapest districts



Source: Otthon Centrum; on the basis of data provided by investors and distributors
Note: as at the end of June 2009.

According to a full-scale survey of Otthon Centrum on Budapest, dating from June 2009, in the framework of projects, most of which have been already launched, this year 9000 units will be delivered in condominium houses. Districts XI and XIII have a share of 40% from this quantity and together with District X, this share is already almost 50%. It may be a surprising fact that this figure is one and a half thousand higher than the volume built by entrepreneurs in 2008, for sale. At the same time, it is a multi-year experience that about one-third of the implementations planned during the year typically

are carried forward to the following year, and this can become even stronger this year, due to the crisis. We maintain our estimates made early this year that the built volume might be about 30% less. A larger drop is expected next year, when the decrease to this year's figures may be up to 60%, taking account of the investor plans.

As compared to our survey made early this year, the number of unsold (but already completed) stock increased to 2900 by June in the capital city. That is, the reduction in demand is provable, at the level of the market, as a whole. Most of the unsold homes (above 200 units) accumulated by now in Districts XIII, X, XI, XVIII, XIV and VIII. But next year, as a result of completion volumes even lower than this year, the absorption of these stocks might start.

MARKET OF SECOND-HAND HOMES

The market, after a poor performance in January-February, livened up considerably, the turnover increased spectacularly. This may be due, partially, to seasonal reasons, but in addition to these, the planned austerity measures announced in March-April also had a significant effect. In order to make use from the still favourable loan facilities, many people felt pushed to bring forward their purchases, but often, the process got stuck because of the rigorous credit ratings by banks (lack of own funds and appropriate income and collateral). At any rate, the rush for purchase was sufficient to achieve a turnover far above the expectations in the second quarter of the year, moreover, in some areas property agencies could register record revenues in their books.

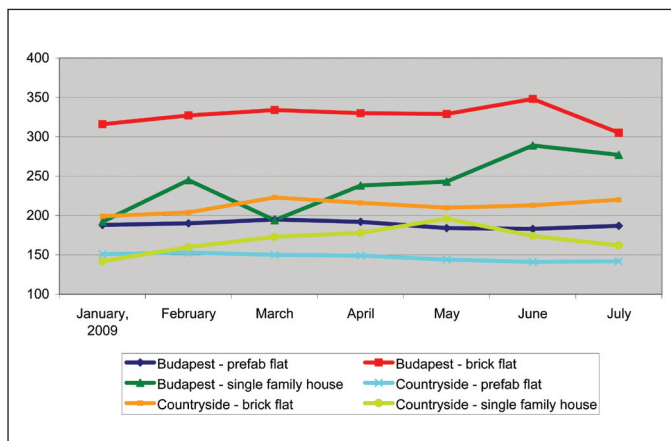
At the same time, due to the cession of assistance, a major drop shall be expected in the second half of the year, on the whole market. According to our estimates, the residential market shall close this year with an about 50% drop in the turnover. The decline shall be detrimental for the countryside, most of all, where already at the beginning of the year, banks downgraded a large number of towns and villages and even cities considered to be of low risk earlier, making it more difficult to borrow.

Though forced sales did not start until now en masse, by this autumn, it is expected that the number of those who are unable to pay the higher instalments shall increase and, as they have already eaten up their reserves, therefore, they'll be forced to sell their homes. But in addition to the banned social-policy support and VAT increase, the large-scale defaulting of housing loans and the coming of homes to the market at dumped prices may lead to problems both on the real estate market and in the financial system.

Until now, no spectacular drop occurred in prices. As it can be seen on our next chart compiled on the basis on our sales database, this year, a marked trend of decline (even though at a rate just above 5%) presented itself only for average prices of block flats in the countryside; in Budapest, prices for block homes

rather stagnated. The average price of brick-built condominium houses in the capital city kept increasing in the first half of the year, then in July a significant drop occurred – it is assumed that partially this was a consequence of the more austere loan terms. The price trend is rather on the rise in the countryside as well. Average prices of family houses moved quite hectically, but towards a positive direction. Although forced sales and an "abnormal" market environment in general make it more difficult to analyse the trends in price movements, the important price reduction expected at the beginning of the crisis can be denied, for the time being.

Changes in average market prices in the different categories, in 2009 (thHUF/sqm)



Source: Otthon Centrum, transaction database

Nevertheless, by the first half of this year, some of the longer-term, trend-like effects of the crisis became already obvious – as foreseen by us already at the end of last year. One of these is an enlivening of the home rental market. On the renting market, both supply and demand increased. One of the reasons for the increase in the number of homes available for rent is that owners attempt to utilise homes standing empty as a source for income, in larger proportions. Also, there is an increase in the number of owners with loan repayment difficulties who would like to rent a smaller, less expensive home or move to their parents for the period when they rent their own homes, in order to get income.

Another reason for the increase in demand is a growing uncertainty because of the crisis. Many people prefer a wait-and-see approach with borrowing and home purchase and until that time, for a transitional period, they rent a home. However, even so, supply exceeds demand, and therefore, rental fees typically decreased this year. The extent of this decrease may be in the range of 5-10% for the whole of the market, and in the more expensive areas, with limited demand for rental (such as the Buda mountains), may reach even 15-20% in a comparison with the years before the crisis.

As forecasted at the time when the crisis emerged, the concentration process of the property sales market continues, in full swing. The point is that the big losers of the drop in turnover clearly are the one-person agencies, with a narrow, incomplete portfolio, whilst networks, due to their cost-effective operation, quality customer service and new services (such as 'urgency centres'), are in a position to use the scant months for market acquisition.

MARKET OF CONSTRUCTION/ DEVELOPMENT PLOTS

Even though negative processes generated by the crisis are far from an end on the market of plots, the newly emerged situation can already be outlined. For the first half of the year, we cannot report about any large-volume transaction. The reasons thereof are unambiguous: because of the decline in demand and loans getting more expensive, developers are reluctant to initiate a large

project, even if the previous phases were completed successfully. This is why large-volume development projects got stuck (in Budapest, for instance, projects for more than 20,000 sqm of level area). As opposed to that, demand is scarce, but existing for plots suitable for the implementation of smaller size projects.

The establishment of new prices did not end yet, in many areas the appropriate benchmark is missing for that. At the same time, based on experiences, we can state that the decrease in prices is spread over a wide interval of range. As a consequence, with the normalisation of the market environment, one shall calculate with a wider price gap than the one before the crisis, in any case.

A typical feature is that whilst a major decrease in prices occurred already by the very beginning of 2009, the price level that emerged does not meet demand expectations in the case of large plots. Therefore, sellers who are not compelled to sell rather sit out passively, and in the case of owners accepting lower prices the transaction often shatters because of a mortgage lien on the plot in question, exceeding its market value. It is expected that this year a perceptible number of development plots (but by no means en masse) shall end up at the financing banks and these will sell the land, after a certain grace period, at the emerging market prices..

Typical prices of plots suitable for condominium development in Budapest

Area	Net plot price projected on net saleable sqm of residential area (HUF)	Price trend in a comparison to the previous year
Inner portions of Districts I, II and XII	120-200.000	↓
Districts VI and VII, within the limits of Nagykörút	90-110.000	↓↓↓
Districts VI and VII, outside the limits of Nagykörút	60-90.000	↓↓↓
Former brownfield zone of district XI	25-40.000	↓↓
Rehabilitation area of District IX	40-60.000	↓↓
The Angyalföld portion of District XIII	35-45.000	↓↓
District XIV	35-70.000	↓↓
Rehabilitation area of District VIII	15-45.000	↓↓
District X	10-20.000	↓↓↓

Source: Otthon Centrum

Even now, in the thick of the crisis, for development purposes, demand for Inner Buda is high, where possibilities for an expansion of offered land are very limited. In accordance with that, prices in this area diminished below average, by about 20-25%, in one year. At the same time, demand lowered significantly in Pest downtown and in the transitional zone, representing a mass market (such as District XIII). Popularity loss of the external, garden city portions was more moderate.

September 2009

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



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