



Otthon Centrum

RESIDENTIAL MARKET MONITOR 2010/2

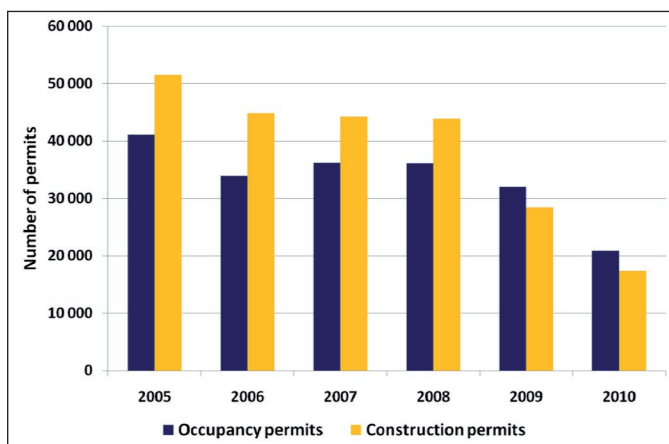
Saving debtors, an approaching entry point, self-reliance, home creation program, optimistic vision – these are the keywords on the housing market in 2011. Subject to positive developments in a number of partially external factors, this year, the housing market may gradually leave the lows.

CONSTRUCTION VOLUME

In 2010, according to data of the Central Statistical Office (KSH), 20,823 homes were built, which means a drop of 35 percent in a comparison with 2009. This is not another negative development affecting the housing market, it is rather the impact of the crisis, reflected in the statistics with a delay, due to the typical lead times of 1.5-2 years for residential property. Already in 2009, the economic environment has already significantly changed, but the number of occupancy permits dropped only by 11 percent at the country's level from 2008 to 2009. The number of new homes, hardly exceeding the limit of twenty thousand in 2010, represents the nadir of the decade in the construction of homes.

The delay in responding to the changes in economic environment was somewhat shorter in the case of construction permits. The number of new construction permits was 43,862 in 2008, dropping to 28,400 in 2009. This means a 35 percent drop at the country's level, followed by a decline in the newly occupied homes, observed one year later. The number of construction permits decreased by another 39 percent from 2009 to 2010, dropping to 17,353 permits. According to KSH data, this is the negative record to date. From the numbers of construction permits we may conclude that in 2011, at a country-wide level, a further drop can be expected in the number of new homes. Accordingly, in 2011, taking account of the current trends, 14,000-15,000 occupancy permits might be issued. An improvement in the economic environment may bring a change in readiness to build homes, but the changes will show themselves first, due to the lead times described above, in the number of the construction permits.

1. Chart Number of occupancy and construction permits – Hungary, 2005-2010



Source: KSH

The capital city remains the largest home builder, in line with traditions, but at the same time, from among all towns and villages of the country, the

most important drop in the number of occupancy permits was experienced also in Budapest, with a 40% decrease from 2009 to 2010.

The crisis did not bring about a significant change in the housing targets. In Budapest, homes built for sale remained overweight in 2010 as well. Out of delivered homes, 85 percent were built for the purpose of subsequent sale, with 15% of the remainder being intended for own use, and a negligible portion thereof (0.78%) was built for letting. In small towns and villages, the case is just the opposite. Here, 87 percent of the homes were built for own use in 2010, and only 13 percent for the purpose of sale. In cities with county rights, homes built for own use and for sale are roughly identical in number. These proportions did not change significantly in recent years, even though in the capital city, as opposed to an average drop of 40 percent from 2009 to 2010, the number of homes built for own use decreased by a rate of more than 4 percentage points higher.

The last two crisis years were the first to see an excess in the number of newly occupied homes over the number of construction permits issued for new homes. In 2009, the difference was 11 percent, in 2010, 17 percent. Taking into account the lag of 1-2 years between the occupancy and construction permits, this witnesses deteriorating expectations at the home builders. The picture is somewhat more nuanced by the fact that in Budapest, uniquely in the country, the situation is just the opposite: there is a difference of a couple of hundred homes in favour of construction permits.

HOUSING POLICY, BANK FINANCING

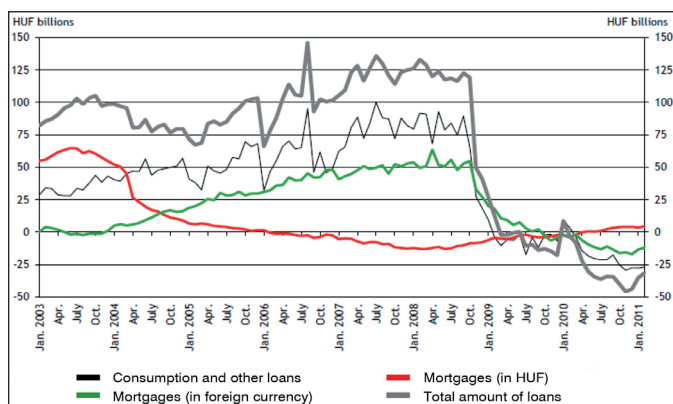
Together with the changes in economic environment, a dramatic drop occurred in retail lending, with lending volume reduced by a quarter between 2008 and 2010. According data of NBH, forint-denominated borrowings exceeded redemptions by 8.6 billion forints in February 2011, and the stock of foreign currency loans decreased by 38.4 billion forints. By the end of the month, the loan stock of households was reduced by 29.7 billion from transactions.

A turning point in the trend is still ahead, as this January, NBH registered, at a level of 18.2 billion forints, one the lowest levels of the past one year in the volume of new mortgage loans placed, both in respect of forint- and foreign currency-based housing loans. Nevertheless, 31 percent of the banks applied tightening in the fourth quarter of 2010 regarding the terms of retail and housing loans, as established by a lending survey of NBH in February 2011. The good news, however, is that in the first half of 2011, 5 percent of the banks plan to ease their terms of housing-related lending. This affects primarily the minimum credit rating levels required and may mean a larger number of creditworthy customers. This is reflected also in the fact that according to the NBH survey, more than half of the banks expect a recovery in demand for retail mortgage loans.

One of the positive consequences from contraction in lending may be an upgrade of financial awareness of the households, an appreciation of the role of self-reliance and long-term financial planning. This approach is materialised in savings for housing purposes. Such savings might become more attractive due to legislative changes, in force from the 1st of January 2011, supplementing an already existing government support of 30%, capped at 72,000 HUF per year. With an amendment of the law

on home-savings accounts, the contract relationship provides access to funding not only for persons holding such savings, but also their close relatives and, if a beneficiary was appointed, the latter's close relatives as well. Another favourable change is that the law extends the period for providing this government support. Accordingly, instead of 8 years of savings, government support is provided during 10 years of savings, under each contract.

2. ábra Chart Net borrowings of the household sector, 2002 – 2010



Source: MNB

In the year 2010, on the basis of estimates of Otthon Centrum Hitelek, about 400-420 bn HUF was the total amount of savings contracts for housing in Hungary. For this year, we expect an expansion of another 50 percent. Also on the basis of international examples, there is still room for growth. The penetration of building societies is 50 percent in Slovakia and Germany, 70 percent in the Czech Republic, about 85 percent in Austria, that is, at least every second citizen is a holder of such contracts. In Hungary, this form of self-reliance appeared in 1996, but the penetration indicator is only 12 percent at present. The potential in savings for housing purposes is confirmed by the fact that this year, the previously two-player market may expand to a four-player one.

On the housing market, one of the big questions is what shall happen to property owners defaulting on their mortgage loans. According to data of the Hungarian Financial Services Authority (PSZÁF) of June 2010, within retail mortgage loans, 296,400 loans were non-performing, including 105,200 loans with a payment default of more than 90 days. The loan stock of more than 90 days in default represented 574 billion forints. According to data of the National Bank of Hungary, within the stock of household loans, by the end of 2010, loans with more than 90 days in default represented 11 percent. Deteriorating economic conditions, a weakening of the forint and the increase in unemployment increased the loan burdens of the households. According to NBH data, the redemption-to-revenue level was 18 percent in 2007, but in 2010, already an average of 37 percent.

Payment difficulties apply to a widening range of households, therefore, the government announced two moratoriums: One of these had been regulated by Government Regulation No. 12/2003, on the extrajudicial sale of charged property. It is important to know that this moratorium applies only to extrajudicial sales, but banks remain entitled to sell properties charged with mortgage, within the enforcement process regulated by Act LIII of the year 1994 on judicial enforcement. But the eviction moratorium, initially valid until 15 April 2011 and, with modified terms, until 1 July 2011, applies to both procedures.

In practice, eviction moratorium proved to be more efficient with regard to protection for debtors. Auctions, performed through judicial enforcement are available to the banks even at present, but the number of successful auctions is negligible according to PSZÁF data. The reason for failure, in a majority of the cases, most likely is the eviction moratorium, with its effect of dampening demand.

Government Regulation No. 12/2003 was amended by the government with effect from 14 April 2010, specifying stricter rules for extrajudicial auctions, underregulated previously. In accordance with these amendments, any auctions may be performed only on an E-Auction Interface, operated by the government's tax authority (NAV). Joint sale by the pledgor and pledgee can start only if the purchase price of that property is, according to expert valuations carried out over the six months preceding that sale, higher than seventy percent of the market value on vacant property. This restriction may limit unforeseeable price drops, still, in the case of several properties, a purchase price that is 30 percent below the market rates may put material pressure on prices, already subdued because of the scarcity of demand. The estimates provided in expert valuations are verified by NAV, making use of its own records with comparative value data. The moratorium expires on 1st of July 2011; after that, extrajudicial auctions may restart, according to these stricter rules.

Both the auction and the eviction moratoriums have the objective to provide, in addition to protection for debtors, a plan of the government, elaborated jointly with banks, to assist borrowers in trouble. The exact details of the plan are not now as at the date of compiling the present Residential Market Monitor. On the basis of information leaked out so far, from among debtors in arrears with their property loans, the state would buy the properties of a few of them only. They are the ones who may stay in their homes, as tenants. Borrowers, both the ones in arrears and the ones who are still performing redemption obligations in due order, may apply for a fixation of the redemption instalments of their foreign currency loans. That fixed rate would be available for a couple of years for debtors, with exchange rate fluctuations and the differences arising therefrom between fixed and actual redemption payments to be registered by the bank on a separate account, with a government guarantee provided in respect of these amounts. The banks would grant a bridge-over loan to the owners for these amounts. The price dampening effect of forced sales by the banks would be also restricted, by introducing an auction quota. This means that the banks could initiate enforcement, on a quarterly basis, only for a pre-determined portion of their loan stocks. This legislation prevents the coming of a large quantity of properties to the real estate market at depressed prices within a short period of time and is designed to cushion the price-dampening impact substantially. At the same time, this means a lengthening of the period required for cleaning up the banks' loan portfolios. Our recommendation is that this quota system should be applied for a maximum of 1.5-2 years only. Within that period, at the latest, the banks' portfolios should be cleaned, and doing so, a major obstacle to the willingness of banks to lend could be eliminated.

Parallel to such assistance provided to debtors, it would be advisable to employ tools for expanding demand, in order to ensure a more rapid absorption of properties at depressed prices and a recovery of the residential market. Such a tool for stimulating demand could be a full exemption from levies for the purchase of previously occupied dwellings or interest subsidies provided by the government also for the financing of purchases of such homes. The allowance for levies could be applicable also for a determined period only, whilst in the case of interest rate subsidies, a full-fledged subsidised loan scheme should be set up, where loan ratios and maximum values should be fixed for all homes. The introduction of such a contingent would push wait-and-see buyers to proceed to purchases rapidly and would bring additional demand to the residential market. In this case, the homes from forced sales could be absorbed and the housing market could gain momentum. A limitation of the allowances would not put an unpredictable and unbearable burden onto the government budget either.

At present, it is difficult to tell how many properties would come to the open market for forced sale. The larger this number is, the larger may be the pressure exercised by this housing stock on prices. It is also questionable what would be the time period of forced sales of covers provided to loans in

arrears in the case of introducing an auction quota. The impact on property prices will be determined by the percentage of forced sales to the total transactions of the period on the housing market. In Budapest, at a relatively high number of transactions, the market might absorb the properties with depressed prices more rapidly, therefore, these shall not lead to a significant price drop. No major price drop is expected on the property market of small towns and villages either, but here, the low number of transactions and the frozen market may restrict the price-dampening effects. Probably those small and medium-sized towns will be concerned most, where market activity is insufficient for offsetting the price-dampening effect of properties with depressed pricing.

The much-needed leverage effect could be achieved on the residential market through the plans outlined in the Home Creation programme of the New Széchenyi Plan (ÚSZT) as well. From the draft programme calling for an upgrade of the residential stock, the construction of energy-efficient new homes, a significant expansion of the stock of rented homes, a connection between housing subsidies and raising children and urging self-reliance, for the time being, development projects of building energetics received relatively more attention. In addition to the tender available in ÚSZT offering assistance to development projects in building energetics, combined with renewable energy sources, programmes launched earlier, also provide funds for the investments. For block house refurbishments, associated to the upgrade of energy systems, the Ministry of National Development paid 3.6 billion forints to date. In the Blocks subprogramme of the Green Investment System (Zöld Beruházási Rendszer, ZBR), the winners will refurbish 44,500 blockhouse homes and this can be supplemented later, with the refurbishment of another 23,000 homes; still, the sources required for that second stage are not available yet. The homes to be refurbished now make about 6 percent of the approximately 780,000 homes built using industrialised technologies. In the period from 2001 and 2008, about a quarter of that stock, 190,000 homes were already upgraded. Energy-related renovations are supported also by the Energy Efficiency Subprogramme of ZBR's Climate-friendly Home programme, where 1.3 billion forints will be paid for that purpose, according to the plans. As for now, these figures are far from the ambitious target of renovating 100,000 homes per year (later, 150-200,000 p.a.), formulated in the preliminary plans. The target numbers for the other segments of the home creation programme, such as the number of new homes planned to reach gradually 40-50,000 per year or the construction of 300-500 homes per year in the framework of a pilot programme, to be followed by thousands of new homes for rent, do not seem now to be within reach, either.

THE MARKET OF NEW HOMES

On the market of newly built homes, the absence of larger-volume residential projects can be felt; the inventory of condominium house flats, delivered but not sold decreased in Budapest from 3,800 units in January 2010 to 3,200 by January 2011. The decrease in delivered stock came partly from the lack of aftergrowth, on the one hand, and an increase in demand for delivered homes. In the present economic circumstances, buyers continue to give preference to newly built homes, already delivered or close to completion, because these ensure more safety as opposed to homes still in the process of construction or existing in blueprints only. The lack of aftergrowth is particularly evident in respect of uncompleted, unsold units. In January 2010, in Budapest, 3,000 flats in condominium houses were offered for sale. One year later, this figure was only about 1,100. Therefore, while in early 2010, a diminished community of buyers could select from among 6,800 newly built condo homes, by early 2011, only 4,300 newly built condo homes were offered for sale in Budapest, according to a survey of Otthon Centrum.

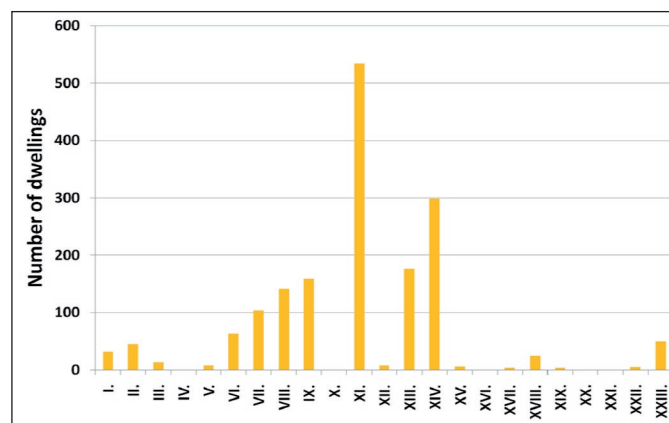
Sales of newly built homes in condominium houses increased by 50 per-

cent in Budapest in the second half of 2010, to the same period of the previous year, but for the whole of the year, the number still remained inferior to 2,000 homes. For the whole of the year, this means a 13 per cent increase in sales, from 2009 to 2010. The full-year increment comes from the expansion observed in the second half of 2010, because in the first six months of 2009 and 2010, the same number of newly built homes were sold in Budapest. The reason behind the decrease in unsold home stock is not only the sale of newly built homes, but also that last year, developers continued to terminate or suspend their projects, withdrawing their offers already made, and so, the offer shrank without sales.

At present, we can find projects with large numbers of units only exceptionally on the Budapest market of newly built homes. Developers turned their attention to projects with low numbers of units and in most cases, they finance these from equity. The narrowing of fund raising possibilities and the increasing costs of funding affected the developers' market as well. Prior to the crisis, banks were ready to finance residential projects already subject to 30 percent of own funding and 30 percent of preliminary sales. Now, far less developers qualify as creditworthy, but for being financed by the bank, they also have to prove that their own funds represent 50 percent and preliminary sales stand at 50 percent. Achieving a 50 percent level of preliminary sales is particularly difficult if we take into account that buyers are looking for delivered homes, as already pointed out above.

Demand for newly built homes reacted faster than supply to the change in economic circumstances. In the first year of the crisis, several developers decided to run away from trouble by completing their investments in spite of the diminished demand. The overwhelming majority of projects launched prior to the crisis were completed during last year and without some significant recovery in demand, no strengthening can be expected in developers' activity. This means that in the short run, even this reduced demand can absorb the unsold stock of homes. Assuming that present trends will remain valid, in respect of certain types of homes and areas, a deficit might emerge within 1-2 years in the case of newly built homes. As a consequence of different response times on the demand and supply sides, in the case of a recovery in demand, this may lead to a fast increase in local pricing for newly built homes, as long as the widening of offers does not cool down that increased demand.

3. Chart Number of homes planned for delivery in 2011, in Budapest, by districts



Source: Otthon Centrum (as at January 2011)

Similarly to the year of 2010, in 2011 as well, the largest number of newly built condominium houses will be delivered in District XI - slightly more than five hundred, on the basis of our survey of January 2011. District XIV ranks second, with 300 planned deliveries. The market situation in District XIV may become particularistic because of a recently applied stop for issuing building permits, if that stop persists for a longer period. In Districts

XIII, IX, VII, according to the plans of the developers, 150-200 homes shall be completed in 2011. As to the number of sales transactions, District XIII leads, over Districts XIV, XI and IX.

For a recovery of the market of newly built homes, the appearance of projects with large numbers of units and the return of property developers to the market, primarily a recovery in demand is needed. This necessitates an improvement in economic conditions and the income situation of households, cheaper and widely available financing, as well as an improvement in the expectations of the households. Under the impact of buoyant demand, it is highly probable that primarily projects with smaller numbers of housing units will increase. Prior the re-launch, those developers are in a good position where already the second or stage of a multi-stage residential project is awaiting that recovery. The stages already completed might serve as appropriate reference for buyers.

One of the tools for stimulating demand could be a reduction of the VAT rate of newly built homes to 5 percent. Such government-initiated stimulation would be necessary also because of the fact that the unsold stock of newly built homes was reduced in the past period, but the emergence of previously occupied homes on the market, at depressed prices, would lure away even more buyers from the market of newly built homes. Lowering the VAT rate to 5 percent for newly built homes would make these dwellings attractive, and the strengthening of demand could stimulate developers' activity levels, resulting in an improvement of the budget situation. Due to the present level of a few thousand homes sold, such a step could not mean a major risk for the budget, given that VAT receipt from this are at minimal levels anyway.

MARKET OF SECOND-HAND HOMES

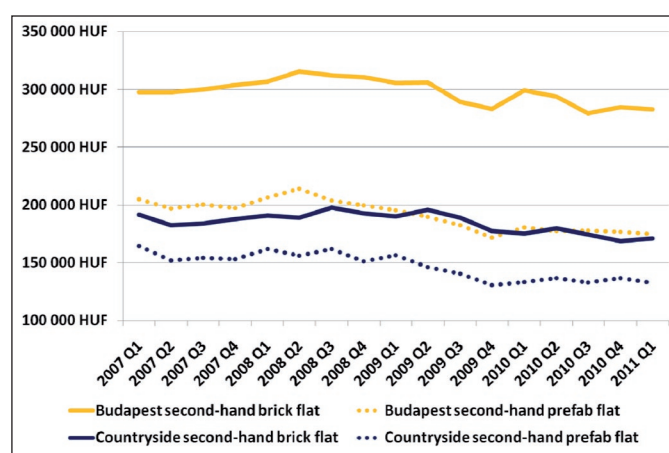
At a national level, the number of transactions on the residential property market has been practically halved in the two years since the crisis. The narrowing of funding possibilities, the change in the economic environment and the deterioration of expectations at the households almost immediately had an impact on the demand side, therefore, the most important drop occurred from 2008 to 2009, whilst by 2010, the decrease in transaction numbers was already moderate. In 2010, for the whole of the country, according to our estimation, less than 90,000 properties changed hands. According to our experiences, the market activity in the first three months of this year was similar to the level observed in the first three months of the previous year, but on demand side, a wait-and-see position was also experienced, due to the uncertainties regarding possible solutions for debtors in arrears. However, on the basis of details that became known from the measures designed for saving borrowers, it seems that any expectations of further significant price drops are unfounded. This is why because it would be very important to see a thoughtful, sound plan, designed to solve the problem of owners in arrears with payments under their property loans. On the one hand, this could reduce to a minimum the speculative pressure on prices and create an incentive for property purchases for investment purposes, while on the other hand, the cleaning of the banks' loan portfolios would improve the readiness of the banks to lend, which might also generate a boom in demand on the residential market. The effects of the package for saving borrowers and a positive change in the economic environment might bring a boom in demand in the second half of the year. On this basis, we expect that the number of transactions in 2011 shall exceed the previous year's level.

The reduction of prices for residential property can be observed on a constant basis since the end of 2008, but its rates tend to get slower. From 2008 to 2010, the most important decline we experienced was in terms of transaction prices on the market of block houses, with a drop of 13 percent in Budapest and about 15 percent in the countryside. In

the case of houses built earlier, from bricks (family houses, rowhouses, semi-detached houses), we observed a drop of 13 and 9 percent from 2008 to 2010, both in Budapest and the countryside. Transaction prices of brick-made homes occupied earlier decreased, according to our database, by 7 percent in Budapest and 10 percent in the countryside between 2008 and 2010.

From the chart showing the evolution of prices, it can be clearly seen that the price reduction takes place at a slower rate, and for 2011, we forecast an even lower space of price reductions, with stagnation in the case of property types and locations, high in demand also in crisis periods. This slower rate of price reduction may be still influenced by the settlement of the situation with property loan debtors in arrears, but as at the time when this Residential Market Monitor was prepared, we can state on the basis of statements disclosed regarding the debtor-saving package that no further significant price drop can be considered likely to occur on the residential market.

4. Chart Development of transaction prices, 1Q2007 - 1Q2011



Source: Otthon Centrum

Oversupply experienced on a market determines the behaviour of both buyers and sellers. In the case of buyers, the decision-making process became much longer. The background thereof is not a lack of awareness, but rather their search for an optimal price-to-value ratio. Buyers make use of this longer decision-making period to get information on all potential offers and, due to the diminished demand, they can afford that.

The crisis brought changes to the behaviour of buyers not only in terms of longer decision-making period, but also in awareness levels. Prestige considerations were overtaken by functionality. The number of rooms and size of the property is selected by the buyers on the basis of its purpose (number of persons moving in, the function of that property), they do not buy large properties unnecessarily. In this modified approach, long-term planning continues to be an important element. The decision is influenced by considerations on future marketability or attractiveness for rent. The latter consideration appears not necessarily only in the case of purchases made for letting, a family home with revenue-generating potential may also provide safety for any unexpected financial „emergency situations“.

The situation evolved on the property market had an impact also on the behaviour of sellers in determining and accepting prices. Back in early 2011 we also experienced that sellers freshly entering the market calculate with an ask price exceeding the realistic market price by 20-30 percent. The background thereof is that sellers start from their property's pre-crisis value in a first round of pricing. On the one hand, they are not necessarily aware of the price changes that occurred in the last two - two-and-a-half years, and on the other hand, they have knowledge about the drop in prices, but they do not take that into consideration,

due to psychological pricing. However, this overpricing does not appear necessarily in the advertisements immediately, and sellers get confronted with market prices prior to the publication of the first advertisement, when consulting property intermediaries or gathering information on their own. The point where sellers accept the realistic market price is mainly a function of their motivation to sell.

The extent of readiness for bargaining about price also depends on the seller's motivation. For the time being, the ratio of those who are under some external constraint to sell (such as payment obligations, difficulties of living), but selling of their property is their own initiative, did not reach mass levels yet, it is in the range of 5-10 percent. In their case, a logical approach would be to offer larger allowances from the selling price, but sellers who had bought their property from loans are not more flexible in prices. These are the owners who pay back the principal of their property loan from that selling price and are looking for some other housing accommodation from the remainder thereof, and so, an important bargain would limit their own possibilities. Sellers with debt in foreign currency often take into consideration the current exchange rate levels as well, when considering buyers' proposals.

Within the network of Otthon Centrum, the average difference between the assignment price and the actual selling price was about 10 percent in the first two months of the year. We can consider this difference as a price bargain, adding that in an assignment for property intermediation, the seller is confronted with the realistic market price prior to determining the assignment price and is already aware of the impact of any overpricing on that sale. In price bargaining, no major regional differences are observed. The most important allowances can be seen in the Buda agglomeration, but even that is only 2 percentage points above the average. The size of the bargain was about 5-6 percent in the second half of 2010 and it increased to the presently experienced level of 10 percent only by the end of the year.

The continuous slowdown in price reduction on the residential market moves the imagination of investors, too. Until now, the abovementioned wait-and-see approach was characteristic for investors, but with a very high probability, a significant drop in property prices is not to be expected, therefore, a start of buying for such purposes might be also expected. Investor strategies are multifold, and are highly dependent on the financial possibilities of the investors. No pure formulae exists on the market, but two different tactics of investors can be highlighted.

The first group consists of private investors who purchase for letting. They are looking for homes between 8-12 million forints, and they let these on their own and operate these themselves. Their portfolio represents 20 million forints, on average. These investors benefit from letting properties, an increase in property prices is a secondary consideration for them in the case of this strategy. The location and layout of the properties shall also follow this consideration, and no significant price increase can be expected at these properties.

The second group of investors is the scope of investors speculating for a price increase. They buy properties of 50-60 million forints or with values in excess of that, in the hope that they will be able to re-sell the property later on, with a profit due to the increase in prices. In this investment tactic, location is key, as is the type of that property. This tactic focuses on price increases and these properties are only rarely let out by their owners. In the current market circumstances, these investors appear in Budapest and, within that, in the „premium areas“. These are located in the prestige districts of Buda and the inner districts of Pest. In the countryside, we did not come across this type of investors. Their focus on Budapest is explained, among others, by the currently very much frozen character of the market for possible countryside targets, such as country houses, castles; it is almost impossible to sell such properties in the present market environment.

RENTAL MARKET

After the eruption of the crisis at the end of 2008, as funding possibilities became narrow and due to increased loan costs and a deterioration in financial situation, many people were forced to postpone their home purchase plans, with many buyers who represented potential earlier getting squeezed out from the residential market. At that time, it seemed to be a very logical conclusion that this stratum will try to find a solution for housing on the rental market. But the prophecies about a rental market boom did not really materialise. Similarly to property prices, rentals decreased from 2008 to 2009 to a larger extent than from 2009 to 2010. At the country's level, the rental fees of brick houses was 11 percent lower than a year earlier in 2009, according to our database. From 2009 to 2010, the drop in rentals was already only 3 percent for this type of properties. In the case of block houses, the decrease in rentals experienced was somewhat larger; for 2008-2010, it reached even 16 percent, but the slowdown in reduction can be observed also in the case of properties built with industrialised technologies.

From the evolution of rentals and from market activity, it can be seen that a slow recovery of demand is experienced on the rental market. In Budapest, in the case of brick houses, the drop in rental fees was only 2 percent from 2009 to 2010, taking account of both previously occupied and newly built homes. In the case of block homes, the same indicator was about 7 percent. If we consider just previously occupied brick homes, then at the level of the capital city, we can state a stagnation of the rentals, but the picture is significantly different by districts: in Districts I, II and V, the rental fees declined from 2009 to 2010, in Districts III, IV and VI, stagnation was typical.

With the reduction in property prices, property purchases for letting became a realistic investment alternative. If we compare the unit rentals of 2010 with the unit transaction prices of 2010, using a simple yield calculation, disregarding all other costs, then we can see that in Budapest, the return that can be achieved from letting blockhouse homes (7 percent) is roughly a half percent higher than the one in the case of previously occupied brick homes (6.3 percent). The return achievable from letting blockhouse homes decreased from 2009 to 2010, whilst in the case of brick homes, there was an increase, even though a minimal one. The background for that is that rentals dropped more from 2009 to 2010 for block flats than for brick flats, and also, the selling prices of block flats dropped more than the prices of brick flats. In the countryside, the returns on block flats ranged from 6.6 to 8.5 percent; in the case of brick flat, a return between 5.3 and 7.3 percent can be achieved in the larger cities. In Budapest, in Districts IV, VIII, XIX, XX, XXII, returns are higher from letting a block flat than from a brick flat previously occupied. In Districts XI or XIII, in Szeged, Miskolc, Kecskemét, better returns can be achieved with the renting of brick flats.

Still, the higher returns typical for block flats shall be assessed from another aspect as well. From the point of view of profitability, utilities do not play a role, because the owner lets the tenant pay for them. But tenants are looking for flats with low utility expenses, that is, the size of these costs have an impact on marketability. Therefore, it is possible that when rented out, a block flat generates, on an average, compared to the purchase price, higher income for its owner than a brick flat. However, when an eventual change takes place in the tenants and taking into account that longer periods of vacancy also may occur, the advantage of a block flat may be smaller. The same issue can be raised regarding subsequent sale.

In the case of purchased for the purpose of letting, the evolution of demand shall be also considered. Demand is slowly recovering on the rental market, but this is true only for certain segments. Homes with central location, good transport access, refurbished are relatively easy to

be let. In Budapest, the psychological price for tenant is about 60,000-70,000 forints per month; below that level, it is relatively easy to find a tenant for the property. At the same time, in the segment with higher rentals, we have to do with a more nuanced picture. In high-prestige districts of Buda, for instance, owners of high-value properties, purchased earlier for the purpose of letting, mainly to foreign tenants, are trying to get rid of them. The reason for that is a deterioration in occupancy and a decrease in rental fees. A similar trend can be observed in the case of houses with large ground areas, built in the 70s and 80s, explicitly for accommodation, at Lake Balaton. Here, in addition to deteriorating chances for occupancy, increased maintenance costs also push owners to sell.

In the case of purchases for speculative purposes, no major recovery can be observed either. In addition to local investors, by now, some traces of foreign activity can be also observed, but it is rather about collecting information or cautious attempts. The reasons for an absence of plot market transactions remained the wait-and-see position, and differences in pricing assumptions on the bid and the ask sides. In Budapest, it is no rarity at present that buyers visualise a plot price of 25,000 HUF per square meter available for construction, confronted with a pricing idea of 50,000 HUF from the sellers for the same.

Already earlier, investors did the shopping from areas suitable for development projects, in general, they still have 1-3 plots in reserve. These are the plots that they deal with, they prepare the projects, submit applications for construction permits, prepare themselves for a recovery of demand for newly built homes. For the developers, there are no selling obligations, and they would not like to sell their plots below price, because they lack a motivation for closing the above-mentioned price gap.

From the point of view of the plot market, the good news is that no further drop shall be expected in plot prices, even though the low number of transactions makes it difficult to perform the valuation of land suitable for development projects with large number of units. Like residential development projects, the plot market is also waiting for a recovery in demand. A reason for confidence might be that the stock of newly built homes is getting absorbed in certain areas, and that might offer possibilities to revive the land market. Several property developers are awaiting the recovery of demand, ready to jump, with empty plots, prepared for the purpose. A recovery of demand would most probably give momentum first to implementation projects, and a new strength on the land market can be expected to come when the plots on stock will have been built in. The picture may be more nuanced by the fact that in the early period of the recovery, location might play an important role in attractive still ailing demand. If the plots on stock at the developers do not meet this criterion, an upswing in plot market transaction might also materialise.

THE MARKET OF CONSTRUCTION / DEVELOPMENT PLOTS

On the market of construction plots, in the period since the publication of the previous Residential Market Monitor, no significant changes occurred. The plot market always moves together with property development, therefore, with the almost full outage in large-scale residential park developments, the market of land parcels suitable for such projects also came to a halt. The limit can be drawn roughly at the level of 50-home projects. There are practically no occurrences of sale and purchase of plots suitable for development projects with a higher number of units than that. Also in the case of residential projects with less than 50 homes, the developer shall make important efforts to find effective demand.

On a significantly narrower market, mainly plots suitable for projects of 2-8 homes are traded. These plots are mostly bought by developers from equity, the construction is performed also mostly from own funds. A good case is when half of the homes can be sold during the period of implementation, offering sufficient revenue for the completion of the project and the subsequent sale of the remaining flats. For such smaller residential projects, investors are looking for higher-prestige areas (mainly in Buda).

1. Table Average, offered, unit and minimum prices of urban land, February 2011.

Area	Average offered price, thHUF/sqm	Minimum price (HUFm)
I. II. XII.	80-100	70-80
III., XI.	40-50	10-20
XXII.	20-25	10-12
XIV.*	75-80	20-30
XVI. XVII. XVIII.	20-30	20
Buda agglomeration	15-25	10-12
Pest agglomeration	10-15	5-6
Debrecen	20-25	3-4
Győr	15-20	3-4
Miskolc	10-15	3-4
Székesfehérvár	10-15	10
Szombathely	10-15	5-6
Pécs	10-15	8-10

Source: Otthon Centrum (as at January 2011)

*a construction permit ban exists

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



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