

Otthon Centrum Residential Market Monitor is about transformation. Our publication, launched in 2005, has been supplying background information and analyses on a halfyearly basis, for property purchasers, sellers and developers. The Residential Market Monitor, covering all segments of Hungarian residential property market, will be published on a quarterly basis as of 2012. Due to switchover to the quarterly publication we have shifted the point of time of publishing the issue of the Monitor concerning year 2011. We shifted to December the coming out, due in October, of the issue 2011/I. Shifting the October publication of issue 2011/I – as continuance of issue 2010/II of the Residential Market Monitor, published in April 2011 – to December, we expanded it to the full year 2011, thus its numbering was changed to 2011/I-II.

Residential market will close a turbulent year in 2011, which has been highly impacted by changes in the economic climate and by measures taken by the government. In the respect of prices, the decline slowing down more and more, and, in certain segments, even stagnation can be perceived, which might mean even the nadir in the curve of the market. However, the economic events we are faced to could yet easily re-write this opinion. On the market of newly-built apartments no turnaround of trends should be expected in the near future, and no boom in household lending is to be expected in year 2012 either.

VOLUME OF CONSTRUCTIONS

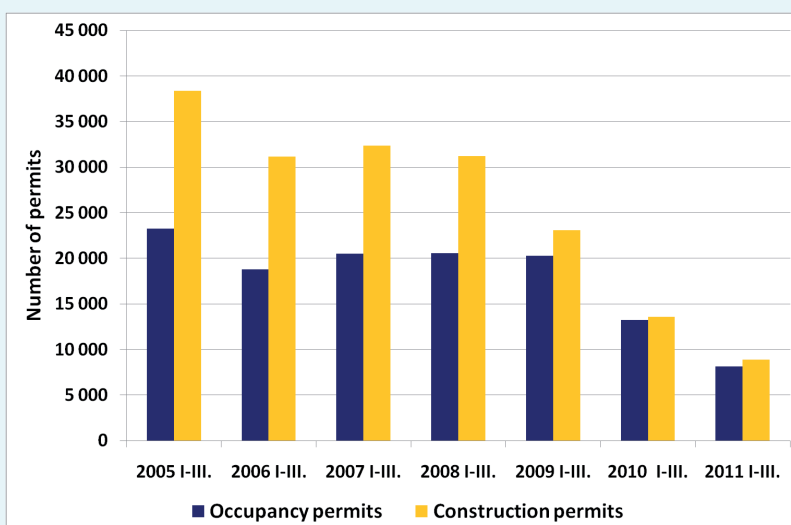
On the residential property market there is no change in year 2011 either, regarding the volume of constructions, whose trend has been declining for many years. In accordance with the data of the Central Statistical Office occupancy permits were issued for 8,147 newly-built apartments in our homecountry, in the first three quarters of year 2011, which is 38 percent lower than the 13,235 apartments having been handed over in the same period of the previous year. On top of it, the data of 2010 are 34 percent lower than those measured in the first three quarters of year 2009. This year the number of apartments handed over in the first three quarters does not reach even the level recorded in the first three quarters of year 2000: 9,111 pieces of occupancy permits, and, in addition, according to the Central Statistical Office the last time so few apartments were built in Hungary, in the first three quarters of a year, was at the time of the 1933 world crisis.

The number of building permits shows a level 35 percent lower in the first three quarters of year 2011, in the whole country, compared to the same period of last year. The number of building permits, which reflects truly the expectations of property developers, started to decline already from 2008 to 2009, and there is an ongoing fallback ever since, amounting to 35-40 percent between the several periods.

In the years preceding the crisis the number of building permits was always 35 to 40 percent higher, on a regular basis, than the

number of occupancy permits, while, as of 2010, these two indices deviate from each other only to a minimum extent regarding the first three quarters of years 2010 and 2011. The figures of Q4 might still retouch this picture, since, as history shows, relatively much more occupancy permits than building permits are issued in the last quarter of the year. This way it is easy to suppose that, like the past two years more apartments will be granted occupancy permits at the end of year 2011, than the number of applications for building permits. On the basis of the experience of past years the second half of the year is more active in the field of licensing proceedings, in the second halfyear always more residence and building permits are issued than in the first halfyear.

FIGURE 1 NUMBER OF OCCUPANCY AND CONSTRUCTION PERMITS – HUNGARY Q1 TO Q3 2005 – Q1 TO Q3 2010



Source: Central Statistical Office

On the basis of all this we reckon with 11,000 to 12,000 occupancy permits in 2011, thus we are forced to qualify too optimistic our estimate expecting 14 to 15 thousand occupancy

permits relating to the same period of time, explained in the previous Residential Market Monitor Issue 2010/II. And if we start from the trend of the past two years, the number of building permits will remain below the level of occupancy permits by yearend.

Similarly to the change recorded between year 2009 and year 2010, the decrease of the number of building permits compared to the same period of the previous year (62 percent) exceeds by far the national average (35 percent) in Budapest, in the first three quarters of year 2011. In line with the construction activity declining more than the average the construction of apartments shifted in Budapest unambiguously into the direction of projects of minor volumes. The floorspaces of the residential buildings, for which building permits were issued in the first three quarters of 2011 are 68 percent smaller than the floorspaces of the buildings planned to be constructed in the same period of the previous year, although the national average shows only a 27 percent decrease of floorspace in the same periods. The average floorspace of the apartments constructed during this time did not change in Budapest, while it increased from 93 square metres to 100 square metres at national level.

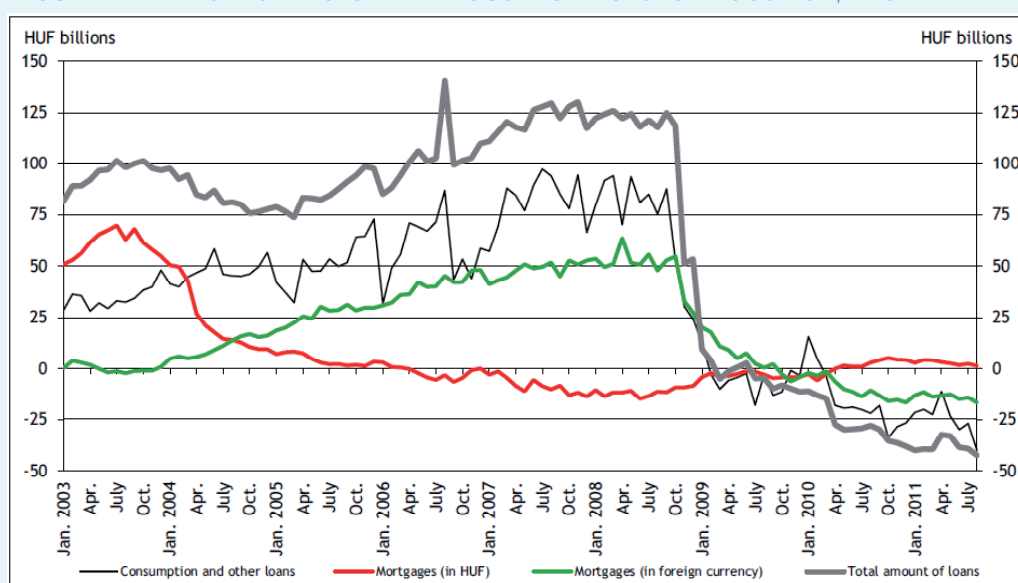
In Budapest, the reduction of the number of building permits in excess of the average is explained also by the decline of the property developers' activity. While regarding the aims of construction, the percentage of constructions launched for own purposes in villages exceeded 90 percent in the first three quarters of year 2011, accompanied only by a fallback of 2 percent in respect of the number of building permits, as compared to the same period of last year, in Budapest, the proportion of apartments built for sales reached almost 80 percent, in the same period, coupled by a 62 percent reduction in the number of building permits, as mentioned above.

HOUSING POLICY, FINANCING

The loan portfolio of households lowered by HUF 26.1 billion in September 2011, according to the data of the National Bank of Hungary, while, in October, this data amounted to HUF 191.4 billion, of which HUF 170 billion can be traced back to the early repayment. In respect of forint loans the households borrowed

more than repaid in September, the forint loans raised exceeded by HUF 10.9 billion the amortisations, while the portfolio of exchange loans was reduced by HUF 37.0 billion, disregarding the effect of revaluation and other changes in volume. In October, the loans repaid by the households exceeded the amount of loans raised even in the case of forint loans. From the reduction of HUF 191 billion the forint loan made out HUF 1.7 billion. Credit institutions extended mortgage loans of HUF 21.9 billion in October, which is the worst October result of the last six years, and it is by 20 percent inferior to the value of the same month of last year. Within the mortgage loans the newly placed housing loans declined as well, to HUF 16 billion. In the same period the forint housing loan portfolio of households amounted to HUF 1,530 billion, while the portfolio of exchange housing loans amounted to approximately HUF 2,870. The exchange loan portfolio increased from August to September, calculated at the month-end medium FX exchange rate, which is due primarily to the alteration of the exchange rate of forint. For the time being no turnaround is to be expected on the lending market either, the National Bank of Hungary presumes there will be a boom in retail lending in 2013.

FIGURE 2 NET BORROWING OF THE HOUSEHOLD SECTOR 2003 TO Q1 2011



Source: National Bank of Hungary

The trend of the exchange housing loan portfolio will also be impacted, in the next four months, by the steps made by the government most recently in respect of early repayment. In accordance with the amendment to Act CXII of 1996 on Credit Institutions and Financial Undertakings, entered into force on 29 September 2011, the homeowners having raised exchange loans for the purchase of their apartments can repay their loans in one instalment, at an exchange rate more favourable than the one prevailing on the market. The exchange rate fixed in the Act above for the early repayment amounts to HUF 180/CHF on CHF basis, HUF 250/EUR in the case of EUR, while to HUF 200/JPY 100 in the case of Japanese yen. The possibility of early repayment may be made use of by a person who has raised his

or her exchange loan at an exchange rate lower than the one mentioned above and undertakes to repay the full amount of his or her debt in one instalment, including any debt derived from bridging loan or from omnibus account loan, potentially linked directly to the exchange loan. The claim for early repayment shall be announced to the bank, having disbursed the loan, by 30 December 2011, and the debtor must pay his or her debt within no more than 60 days of the announcement. The costs of early repayment, including the difference between the exchange rate of early repayment and the exchange rate of the market, shall be borne by the banks.

The main target of the measure taken for early repayment is to reduce the FX exposure of households, however, it exposes the bank system to a serious test. The step entailing highly probably significant losses for the banks might result in serious changes even on the residential market. From the aspect of property owners the opportunity of early repayment is very attractive, since there might be even a difference of 20 to 30 percent between the market rates and the exchange rates of early repayment, depending on the type of foreign currency and on the current exchange rate. Projected on the existing principal debt, this difference ensures already a serious benefit from the viewpoint of the debtor.

In addition to the savings and to the substitution of loan, the property owners, indebted in FX, may raise the funds required for early repayment also from the sale of the given real estate. Should lots of people decide to sell their respective real estates, the growing offer might trigger a price reducing impact in itself. In addition, the aforementioned allowance provides a larger action field for the seller in granting discounts. The rate of the discount granted by the seller depends on the point, what a portion of the value of the property is made out by the existing principal debt: how much the LTV of the loan was earlier, and by what a sum of money the value of the property decreased in the period elapsed since the purchase, and, respectively, what a portion of the difference of debt, derived from the difference of exchange rate, he or she shall concede for the purchaser. Should he or she concede half of the "allowance" of early repayment for the purchaser buying the property, and at the same time his or her loan debt makes out half the value of the real estate, then a 20 percent difference of exchange rate means a 5 percent discount from the price of the property. Highly probably the actual discount may be found out no earlier than at the end of the closure of the term of early repayment, since there is a short time for the sale of the property: no more than the time left until 28 February is available for the sellers in order to raise the funds required for the early repayment. Presumably, lots of sellers will only be able to submit their respective claims for early repayment no sooner than at a date closely before yearend.

When we prepared our analysis, we registered already several purchases on the residential market, which had been entered into due to the early repayment, while, for the time being, the number of property owners, who have given a mandate for sale expressly due to early repayment, can be put between 5 to 10 percent at

national level. This number may increase from among the circle of debtors having pondered over the substitution of loan earlier, for the sake of early repayment, but having no appropriate credit standing. The debtors faced to their lack of bonity or, potentially, to the overstressing monthly burdens, might finally decide to sell their real estates.

In accordance with the data of the Hungarian Financial Supervisory Authority, from among the 950 thousand exchange housing loan borrowers a total of more than 54 thousand people made use of the opportunity of early repayment by the end of November: this is only 5.7 percent of the persons concerned, while the market estimates the number of those making use of such opportunity

TABLE 1 WELFARE BENEFITS AND THE PROPORTION THEREOF COMPARED TO THE PRICES OF APARTMENTS

	Region	Price of apartment	Proportion of subsidy
Minimum floorspace in the case of 2 supported children	Budapest	21,000,000 Ft	3.81%
	Countryside	13,800,000 Ft	5.80%
	Amount of subsidy	800,000 Ft	
	Budapest	26,250,000 Ft	3.81%
	Countryside	17,250,000 Ft	5.80%
	Amount of subsidy	1,000,000 Ft	
Minimum floorspace in the case of 3 supported children	Budapest	31,500,000 Ft	4.13%
	Countryside	20,700,000 Ft	6.28%
	Amount of subsidy	1,300,000 Ft	
	Budapest	24,500,000 Ft	4.90%
	Countryside	16,100,000 Ft	7.45%
	Amount of subsidy	1,200,000 Ft	
Minimum floorspace in the case of 3 supported children	Budapest	29,750,000 Ft	5.04%
	Countryside	19,550,000 Ft	7.67%
	Amount of subsidy	1,500,000 Ft	
	Budapest	35,000,000 Ft	5.71%
	Countryside	23,000,000 Ft	8.70%
	Amount of subsidy	2,000,000 Ft	
Minimum floorspace in the case of 4 supported children	Budapest	28,000,000 Ft	5.71%
	Countryside	18,400,000 Ft	8.70%
	Amount of subsidy	1,600,000 Ft	
	Budapest	33,250,000 Ft	6.02%
	Countryside	21,850,000 Ft	9.15%
	Amount of subsidy	2 000 000 Ft	
Minimum floorspace in the case of 4 supported children	Budapest	38,500,000 Ft	6.49%
	Countryside	25,300,000 Ft	9.88%
	Amount of subsidy	2,500,000 Ft	

Source: Otthon Centrum, Ministry for National Economy

between 10 to 20 percent. By the end of November scarcely three thousand eight hundred debtors substituted their exchange loans at the favourable exchange rate, with the help of a forint loan.

In addition to the early repayment the government made a further announcement concerning the residential market, according to which the option of claiming housing loans with subsidised interest will be enlarged, and, respectively, the welfare benefit will be made available again, providing a non-refundable support for families buying new apartments. In the current condition of the residential market each step for animation means a step to welcome, however, it is to be feared that such measures, and specifically the welfare benefit can only have a marginal influence on the market.

In the case of newly-built apartments to be purchased with the help of non-refundable benefit the government's action envisages a minimum floorspace depending on the number of children (see Table 1) and a maximum price. The price of one square meter cannot exceed HUF 300,000 without VAT and plot ratio, in case of low energy consumption the maximum price is HUF 350,000. According to Central Statistical Office, in 2010 the average square meter price of a newly built home amounted to HUF 350,000 in Budapest, and to HUF 230,000 in the country side. Based on this the subsidy system should have a greater effect in the country side. If we multiply the minimum floorspace of apartment with the above mentioned prices of newly-built apartments in Budapest or in the countryside, it is clear that, in Budapest, the support amounts to 4-7 percent, while in the countryside to 6-10 percent of the value of real estates. A grant of such extent does not seem to be significant either in itself or compared to the magnitude of minimum own resources, required for the purchase of an apartment. Therefore, no serious effect vitalising the demand can be reckoned from such a step in itself.

The subsidised-interest forint loans can probably stimulate harder the residential market demand, however, their actual effect can

be considerably attenuated by the low spirit of indebtedness and by the worsening expectations of households. At the beginning of the past decade the subsidised-interest forint loans stood already their proof regarding the stimulation of demand, from the aspect of market, but the current scheme deviates, as planned, in several respects from the financial product that could have been applied for at the beginning of the 2000s. One of the most important differences, influencing significantly even the effect to stimulate the demand, is that the subsidised-interest available as of 2012 is envisaged for 5 years and the rate of subsidy will decrease from year to year. This way the subsidy of interest will place a much easier burden on the state budget, but the borrower shall amortise his or her loan already at market rates as of the 6th year of the term. The proportion of interest subsidy depends on the yield of government bonds.

At the date of the preparation of our analysis the law regulating the interest subsidy was not yet enacted, the information related to the scheme above had been published by the Ministry for National Economy in a communiqué. On the basis thereof an interest-subsidised loan can be applied for basically for four main purposes as of 2012.

In order to make use of subsidised loan the applicant must meet several conditions, among other things, interest subsidy may only be granted for natural persons, having an official, registered job.

The maximum property value of HUF 30 million, specified for the interest subsidy, that may be claimed for the purchase of newly-built apartments, means that this scheme allows the purchase of a real estate of no more than 85 square metres, implying a non-refundable welfare benefit, of no more than HUF 1.6 million, depending on the number of children. This fact, too, supports the opinion that the non-refundable welfare benefit renders a rather significant help mainly in the countryside.

The first two schemes of interest subsidy may result in a general animation of demand on the market, while the last two ones may promote the cleaning of the banks' loan portfolios and the

absorption of collaterals (which are in the background of dead loans). Upon the purchase of a real estate, having served as collateral for a non-performing loan, the sales price of the apartment shall reach at least 80% of the market value stated by the credit institution, and the seller's default has to exceed 180 days. The ultimate scheme mentioned above may be selected by debtors in default for more than 90 days, if they agree to move to a smaller and less expensive real estate, and to repay the bank the full amount of their debt.

TABLE 2 MAIN INDICES OF THE SCHEMES PLANNED FOR INTEREST SUBSIDY

Type	Value of loan target	Maximum value of loan	Ratio of interest subsidy*	Availability
Purchase/construction of new apartment	HUF 30 M	HUF 10 M	60% (70%)-55%(65%)-50%(60%) - 45%(55%) - 40%(50%)**	31 Dec. 2014
Purchase/modernisation of second-hand apartment	HUF 15 M	HUF 6 M	50% - 45% - 40% - 35% - 30%	31 Dec. 2014
Purchase of residential property encumbered by mortgage loan in default or cancelled	HUF 15 to 10 M***	HUF 10 to 7 M***	50% - 50% - 45% - 40% - 35%	31 Dec. 2012
Purchase of smaller apartment by debtor in default	****	No data	50% - 45% - 40% - 35% - 30%	31 Dec. 2012

Source: Ministry for National Economy

* in proportion of the yield of government bonds

** in the case of 2 children (in the case of 3 or more children)

*** in the case of Budapest and cities of county rank - in the case of other settlements

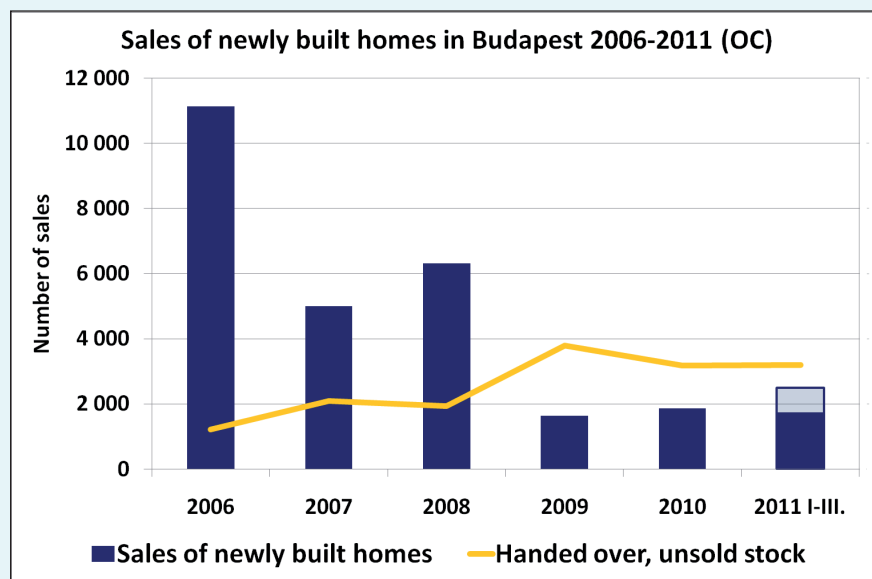
**** The market value of the real estate to be purchased is lower than that of the original real estate.

The banks' loan portfolio continued to worsen in the first six months this year, according to the data of the National Bank of Hungary. The portfolio-prorated value of nonperforming loans increased from a value of approximately 11 percent of yearend 2010 to 12.7 percent by the second quarter of year 2011. It is true that the moratoriums hindering the cleaning of the banks' loan portfolio have been released as of 1 July 2011, but actual forced sales could start as late as from 1 October. However, in the process of purification the capability of absorption characteristic for the residential market in the various fields shall also be taken into consideration. Comparing the number of real estates, placed on the market at depressed prices, via forced sales, to the number of transactions, we can find out, how many properties can be absorbed by the market without a significant fall of prices. This would be worthwhile to take into account in the quota system as well, in order to clean the banks' portfolios as soon as possible.

MARKET OF NEWLY-BUILT APARTMENTS

The statistics regarding the volume of constructions underpin the activity of developers declining significantly on the market of newly-built apartments. No revolution of this trend is to be expected for the time being, however, more than one encouraging signals are perceptible on the market. One of such signs indicates that in accordance with our survey, investigating the market of newly-built apartments in Budapest, as many newly-built apartments had found their owners in the first three quarters of year 2011 as in the whole year of 2010. On the basis thereof we expect sales of 2,500 pieces of newly-built apartments in Budapest for 2011. In accordance with our database generated from the survey, in year 2006 still more than 11,000 pieces of newly-built apartments were sold in Budapest, but even in 2008 sales around 6,000 pieces were registered. The demand responded quickly and the sales fell back nearly to one-fourth in 2009. Since the 2009 nadir the number of sales of new apartments has been increasing on a continuous basis, this is, however, only a correction of the significant decline lasting from 2008 to 2009, because it is not justified by any change in the economic environment. This is underpinned by the fact that it occurred in more than one cases – not only in 2009, but also in 2010 – that the buyers withdrew from the flat purchase deal, deeming the purchase of a newly-built apartment to be too risky. As of 2011 this trend lessened somewhat, but it did not entirely vanish. Concordantly with the survey of Otthon Centrum, the Central Statistical Office

FIGURE 3 MAIN INDICES OF THE BUDAPEST MARKET OF NEWLY-BUILT APARTMENTS FROM 2006 TO 2011



Source: Otthon Centrum

registered similarly around 6,000 transactions regarding newly-built apartments, and also the number of sales around 2,000 pieces relating to year 2010 is congruent in both surveys. The two statistics are not in conformity with each other regarding the figures of sales concerning year 2009, since in contrast to the survey of Otthon Centrum there were more sales in year 2009 than in year 2010 on the Budapest market of newly-built apartments, according to the data of the Central Statistical Office, while, according to our own survey, 2009 was the nadir in the field of sales. However, this deviation does not influence the core trends.

In line with the increase of the number of sales the mass of apartments handed over but unsold did not decline considerably, it continues to stand, at the end of year 2011, at the level measured in January 2011. The quantity of unsold apartments still under construction but offered for sale already had not changed significantly since the beginning of 2011 either.

In addition to the demand side the supply side, the developers started accommodation to these conditions and adjusted their strategy to the change of market conditions. The accommodation of the supply is manifested only with a certain delay in the statistics, due mainly to the time required for construction. In line with a significant fallback of the developers' activity (see the volume of constructions) a major change is to be observed also in the project sizes. In Budapest we can find only sporadically projects of major volumes, from among the projects to be handed over after 2011 or planned to be handed over in the future, i.e. the projects launched already during the crisis we are aware of only 5 pieces of projects exceeding 100 apartments, while from among the projects exceeding 200 apartments, started during the crisis, we have counted only four pieces in the course of our survey. In the projects to be handed over after 2011 and offered currently for sale the average number of apartments is around 22 pieces. According to our

survey carried out at yearend 2007 the same index was almost threefold the index of this year: 60 pieces of apartments. This is also supported by the statistics of the Central Statistical Office referred to already hereinabove, according to which smaller floorspaces of buildings are coupled with invariable sizes of apartments. To put it clearly, projects of smaller volumes are constructed by the developers.

The developers' activity is genuinely characterised by the fact that we have found 9 districts in Budapest, where, according to our survey in September 2011, for the time being there is no outlook for the 2012 handover of newly-built projects. Of course, this can still change, this fact, nevertheless, it reflects truly the developers' expectations, since, in our similar survey prepared in year 2006, according to the then-time plans of developers, relating to year 2007, the handover of residential projects was to be expected in every district. The crisis entailed in fundamental changes in the respective volumes of projects, but the sequence of locations preferred by the developers did not vary. In year 2006, the districts most preferred by the developers were, in order of preference, districts XI, XIII, XIV, IX and III, based on the number of apartments handed over, while, on the basis of the number of apartments handed over in the first three quarters of year 2011, the order of preference was as follows: districts XI, XIII, XIV, III, IX. According to our survey in September 2011 the handover of more than 100 newly-built apartments is to be expected, for the time being, in districts VIII, XI, XIII and XIV in year 2012.

The impact of the decline of demand can also be traced clearly in the pricing of new apartments. Prior to the crisis it was almost unimaginable that the developers should grant discounts from the list prices of new apartments, and they used as purchaser-enticing tools mostly in form of less expensive garage spaces, storage rooms, or free kitchen furniture, while, according to our survey made in September 2011, discounts of 10 to 15 percent from the list prices of apartments were not infrequent. Of course, in line with the price reduction the less expensive garages, storerooms and furniture continued to remain in the set of tools enticing the purchasers. The developers often let on lease the apartments after preparation, as long as they are unable to find a purchaser for the apartment. The lease agreement is entered into in general for a definite period of time, the purchaser is to purchase the apartment together with the lessee, who will remain as lessee in the apartment until the expiry of the lease agreement. This may be favourable mainly for those purchasing for investment purposes, since the real estate is able to generate income from the very first moment.

The increase of VAT might also result in changes on the market of newly-built apartments. The 5 percentage points VAT increase having taken place in the second half of year 2009 generated lots of advanced purchases on the market of newly-built apartments, everybody who was able to do so concluded the contract by June 2009, in order to discharge the general turnover tax (VAT) at the then-time rate of 20 percent, being lower prior to such increase. The rate of increase of VAT forecast as of 2012 will be of a

minor extent of 2 percentage points, however, if we project this increase on the price of several million forints of apartments, it will nevertheless result in a significant price increase on the market. This might cause again advanced purchases, and, respectively, the assumption of the 2 percentage point VAT increase can play a part in the campaigns targeted to the acquisition of purchasers.

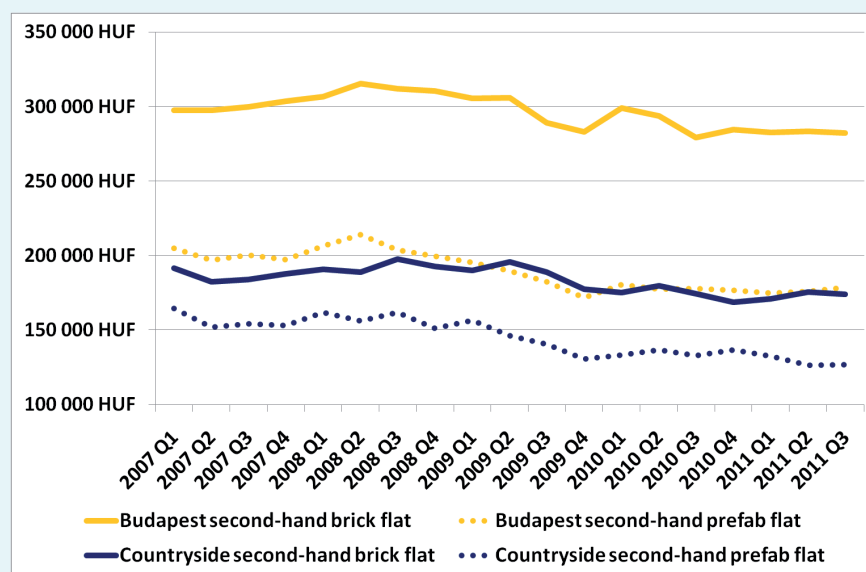
In spite of the rising numbers of sales it cannot be expected in the near future that the developers' expectations should improve, although the welfare measures and the interest rate subsidy, demonstrated hereinabove, may stimulate the demand for newly-built apartments. As it is inferable from the system of grants, the measures of the government stress harder the stimulation of demand for newly-built apartments than the animation of purchases of second-hand apartments. It can be considered necessary, since the trend of prices visible on the market of second-hand apartments, as well as the opportunity of early repayment are capable to entice a higher number of purchasers from the market of newly-built apartments. The boom of the market of newly-built apartments requires a well-founded vitalisation of demand, and the basis thereof could be created by a stable growth of economy. The demand will quickly respond to the positive change of economic climate (this might be manifested, at the level of households, in the amelioration of income and expectations, as well as in a strengthening inclination for borrowing), thus even a shortage can be generated on the market of newly-built apartments in the case of certain types of apartments. This can involve a sudden rise of prices, as long as this is not cooled down by the increasing supply.

MARKET OF SECOND-HAND APARTMENTS

The market of second-hand apartments will close a turbulent year in 2011. Regarding the trend of prices a slow stabilisation can be perceived, the reduction of prices stopped almost entirely in many segments; in year 2011, the price level established in the second halfyear of 2010 was to be experienced in year 2011 alike. Based on the number of sales of Otthon Centrum the prices of second-hand brick apartments in Budapest were stabilised around a price of HUF 280,000/square metre in year 2011. The prices of prefab apartments in Budapest did not decrease further in the first three quarters of year 2011 either. The prices of prefab apartments in the countryside decreased further still in the first two quarters of year 2011, in comparison to the previous quarters, but they did not go falling back in the third quarter any more.

The slowdown or stoppage of price reduction could be even a sign for stabilisation, but several factors can be seen on the residential market, which might impact the prices in the near future. The first half of this year elapsed with sit-out, more than one purchasers deferred their purchases until the cessation of moratoriums, in the hope of prices continuing to fall. The possibility of price reduction was restricted to a minimum through the quota system of auctions, introduced in parallel with the release of moratoriums, however, this

FIGURE 4 TREND OF TRANSACTIONAL PRICES FROM 2007 Q1 TO 2011 Q3



Source: Otthon Centrum

is true mainly at the level of theory only. Although the moratoriums had been released, forced sales could only start as of 1 October 2011, as of this date the real estates of a value higher than HUF 30 million may be offered for forced sales without any quantitative restriction, while 2 percent of cheaper properties can be put up for forced sales until yearend. However, eviction is not permitted between 1 December and 31 March. It would be still too early to appraise the effectiveness of the quota system, but, highly probably, the forced sales will not cause a significant depression in the prices. The real estates of a value higher than HUF 30 million are located for the most part in Budapest and in its suburbs, and, therefore, the start of forced sales may impact more significantly the prices in the segments of higher value, with regard to the fact that here there is no quantitative restriction. Such pressure can be attenuated by the temperance of banks and by the inquiring investors. These properties are of an age lower than the average, and they serve as well as a good opportunity for investment, thanks to their location.

Prices may also be impacted by the opportunity of early repayment, explained above. Nevertheless, it is easy to presume that the price reduction will last only by the end of the period of early repayment. Since the opportunity for preferential early repayment will come to an end for the sellers, they will not be interested in selling their real estate with discount. This means that the price reduction, having taken place under the influence of early repayment, will be corrected immediately by the market, and, therefore, even if a price reduction will take place, the price level might return, as early as at the beginning of next year, to the value measured in the third quarter of year 2011.

The third and, at the same time, the most incalculable factor impacting the prices is a change in the economic environment. The economic environment, both domestic and international, is negative. The protracted debt crisis in Europe, the penetration of the effects of money markets into the real economy might have a significant influence on the declining market demand for

residential properties and, consequently, also on the prices. The news forecast, for the time being, a minimum of economic growth, or, respectively, stagnation for year 2012. This does not yet involve any hazard in itself, but a potential recession might negatively impact also the market of residential properties, through the income conditions and the expectations of households.

Regarding the number of transactions, also last year shows the signs of stabilisation. According to the data of the Central Statistical Office the number of transactions on the market of residential properties was around 90,000 pieces both in year 2009 and 2010. In year 2011 we expect a number of transactions close to these values, although the appraisal is aggravated by the fact that the possibility of early repayment might still

boost the market at yearend. Without the early repayment we could see probably a number of transactions slightly inferior to the last year's figures of sales. On the basis of the statistics of the Central Statistical Office relating to the first six months of 2011, the owners of 37,400 residential properties changed according to the preliminary figures. Consequently, 75,000 transactions can be reckoned with in 2011, but the number of 82,000 transactions, based on the preliminary data relating to year 2010, was finally modified to 90,000 transactions, thus the level of 80,000 transactions will be more probable for year 2011. The numbers of transactions in year 2012 will be determined by several factors. The purchases advanced due to early repayment, as well as the depletion of savings due to the fundraising required for the early repayment might reduce the number of next year's transactions, while the revival of investors' demands, as well as the effect of the steps made by the state in order to stimulate the demand may result in a higher number of buying and selling on the market. The National Bank of Hungary presumes that the boom of retail lending can take place in year 2013, which means also that the market will be dominated by cash purchases for the most part even next year. From the optimistic aspect (according to which Europe's crisis of indebtedness will not have a serious impact on the real economy) we can declare that the market of residential properties has highly probably reached the nadir in respect of both prices and figures of transactions.

The importance of bargains has been rising on the market on a continuous basis, as of the crisis. In the network of Otthon Centrum the average deviation from the price specified in the commission and the actual sales price has shown a trend of around 7.6 percent in the first three quarters this year, while we have registered an average deviation of only 5 percent in year 2008. We could consider this deviation a result of bargaining, provided it is about a commission for real estate brokerage, and, when determining the price specified for commission the seller has been faced already with the realistic market price, and he

or she is aware also of the impact of over-pricing, which might influence the success of sale. In the bargaining of price there are no significant regional differences, the rates of price allowances to be reached in the various counties or districts are moving between 7 and 10 percent. It is important to know that the allowances of the period of early repayment do not yet figure in this volume, we will be able to appraise such effect of early repayment at yearend or early next year.

As we have stressed earlier, it is an effect of the crisis that purchasers are much more conscious in the election of their future real estate. They do not purchase any properties of a floorspace larger than necessary or with a layout which is not in harmony with their aims, they pay more attention to these aspects. By now the statistical recapitulation of purchasers' requirements was rather difficult, since the purchasers specify in general limits "from" and "to" in the respect of prices, sizes, and number of rooms alike, as preferences in the course of search. The limits are sometimes rather wide, and, therefore, it is difficult to find out the exact requirements sought for, which means specific prices, sizes and room numbers, particularly if we take into consideration the limits "from" and "to" specified in the internet search engines, since according to the experience obtained there frequently the dreams and not the solvent demand are reflected in such expectations. This year Otthon Centrum introduced a new element into the client attendance: the central management of advertisements, whereby we are able to measure highly exactly, which was the advertisement of a real estate attracting most of the inquirers. On the one hand, we obtain specific data regarding the range of prices, sizes and room numbers called for most of all, and, on the other hand, we can also filter the "daydreaming", because the inquirers have already specific questions and intents in connection with these real estates.

Based on these data the size most in demand in the case of second-hand brick apartments is around 60 square metres, taking for basis the average floorspace of specific real properties figuring in the inquiries. In relation to Budapest and the countryside there is no material deviation in the specific sizes sought for, in the case of second-hand brick apartments. The purchasers' consciousness strengthened due to the crisis is truly shown by the fact that the real properties sold are smaller to a minimum extent, their floorspaces deviate by 3 to 5 square metres in the average from the size of the real estate sought for upon the inquiry. It is very interesting that, while in the countryside a similar trend can be observed in respect of prices (the average price of the real properties, specified upon the inquiry, is by several hundred thousand forints higher than the average price of the real properties purchased), in Budapest, the average prices of properties specified in the inquiries are lower to a minimum extent than the average prices of the properties sold. This means that the flat-hunters in Budapest slightly underestimate the amount of money to be spent on the purchase of a real estate. We will publish a more detailed analysis of the trend of purchasers' requirements in the next issue of the Residential Market Monitor.

LEASEHOLD MARKET

According to the experience obtained by Otthon Centrum, the reduction of rents did not stop in year 2011, as opposed to the prices of apartments. The rents of second-hand brick apartments fell back by further 5 percent, from 2010 to 2011. The rents of panel-built apartments in Budapest continued to decrease, while it is true that this showed a somewhat lower percentage, a pace around 2 percent, within the same period of time.

The situation is much more diversified in the countryside. In Győr and Kecskemét, the investments in the field of the automobile industry have considerably boosted the leasehold market. In Kecskemét, a serious pressure of demand appears on the leasehold market, which is fuelled, for the most part, by the workforce need of Mercedes, which is manifested already in the increase of rents. Due to the earlier presence of Audi in Győr, the boom of the leasehold market did not arrive suddenly, but the enlargement of factory has clearly continued to strengthen the market demand. It is characteristic for both cities that the time needed for letting shortened significantly, a well-equipped apartment in good condition can be let within no more than a few weeks. In contrast thereto the average time for finding a lessee is 2.5 months in Budapest.

In Budapest, in the areas of higher prestige, in districts II, V, VI and XII, the average flat-hunters search subleases of a monthly rent in excess of HUF 100,000, from HUF 110 to 120 thousand, while in districts XIII and VIII the average flat-hunter is pondering over a rent around HUF 70 to 80 thousand. And, in districts IV, X and XVIII, the average flat-hunter is looking for subleases falling into the range of HUF 50 to 60 thousand. In the large provincial towns the average searches are moving around HUF 50 to 60 thousand, but the range of rents between 35 to 40 thousand is also in demand.

On the Hungarian residential market, ownership of a real estate filling the same function of a home is much more preferred than the lease of the same home. We find more than one factors in the background of this fact, and this system of preferences is deeply rooted. These factors are the low level of the culture of lease, the belief in the stable value of brick, the earlier possibilities of relatively inexpensive funding (subsidised forint loans and then exchange housing loans), as well as the government measures favouring the homeownership. Prior to the crisis the higher value of ownership had also been underpinned by the comparison of costs. We should compare the conditions of purchasing a Budapest apartment and those of the lease of the same apartment prior to the crisis and nowadays. Let us suppose that the subject of our example is pondering over the purchase of a second-hand brick apartment of 50 square metres in Budapest, for which HUF 7 million is available for him or her in year 2007. He or she can make use of exchange loan or, respectively, forint loan for the purchase. In the knowledge of the current market conditions let us examine, what were the terms of leasing the same apartment, as an alternative to purchase. We will oppose this to the current situation, and, respectively, we will demonstrate, what the election of the various alternatives means in year 2011.

The apartment of 50 square metres cost HUF 15 million in 2007. The amount of HUF 8 million still needed for the own resources were able to be covered by the subject of our example with a CHF-based mortgage loan raised for 20 years, with a 7 percent interest rate, and/or with an interest-bearing forint loan with then-time 14 percent interest rate, reckoning similarly with 20 years. In the example, we have made only use of a simplification to suppose that the interest rates of both loans were invariable during the time elapsed as of the raising of loan to-date. The interest rate and/or its variation may be influenced by several factors, among other things by the credit standing of the client, the loan product, the disbursing bank, etc., which aggravates the creation of a reliable model to follow accurately the variations of interest rates. There is no extra cost in the model (handling expenses, closing costs, commission fees, etc.) apart from the interest, and we have not taken into account the margin of the exchange rate either. In spite of the simplifications the table below will truly demonstrate the correlations of magnitude orders.

Based on the figures of the example the purchase of such an apartment from FX loan seemed to be the best option in 2007.

from this viewpoint) that our subject could acquire the ownership of such apartment. In the then-time lending practice the interest rate difference of the two types of loans, as well as the risk of exchange loan were frequently compared. The outcome, according to which the interest rate difference would smelt only in the case of the significant devaluation of forint, which seemed highly improbable in the then-time circumstances, shifted the decision-making in the direction of exchange loans.

The change of the economic climate has considerably modified the sequence found in year 2007. The amortisation instalments of CHF-based loans rose to the level of the monthly burdens of forint loans during the softness of forint. Let us remark here that according to the overall trend the interest rate difference between the two types of loan decreased, and the current amortisation instalment of forint loans might be even lower than the monthly charges of exchange loans, taking into account the changes of interest rates. At the same time the rents decreased due to changes on the market, and, therefore, lease means now the least expensive alternative for exploiting the function of home of the same apartment.

TABLE 3 PURCHASE OR LEASE OF A SECOND-HAND BRICK APARTMENT OF 50 SQUARE METRES IN BUDAPEST IN YEAR 2007 AND YEAR 2011

	2007*	2011**
Value of property (million HUF)	15	13.9
Existing principal debt - CHF loan (million HUF)	8	11.4
Existing principal debt - HUF loan (million HUF)	8	7.6
Amortisation instalment - CHF loan (thousand HUF/month)***	62	99
Amortisation instalment - HUF loan (thousand HUF/month)***	99.5	99.5
Rent (thousand HUF/month)	85	72

Source: Ottthon Centrum, Ottthon Centrum Hítel Center

* CHF 156 / HUF

** CHF 250 / HUF

*** assuming an invariable level of interest rate

The monthly amortisation instalment was by far less than a forint loan involving smaller risk, but even the monthly rent of a sublease, appearing as an alternative to the purchase was higher than the then-time amortisation instalment of an FX loan. Upon the comparison of the then-time monthly expenses the decision was reasonable, because the FX loan resulted not only in the easiest monthly burden, but it had also a psychological advantage (as opposed to the scheme of lease almost free of risk

more or less forced out, any excess demand may be created by the households coping with the possibilities of repayment. It is a question whether these persons, forced to step on the leasehold market, would try to solve their problem of accommodation on the leasehold market, in spite of the cessation of the constraint caused by the economic environment, through the alteration of exchange rates and through unemployment.

The reduction of rents could be attenuated or even reversed by the potential revival of demand. Forced sales started as of 1 October might lead to the outcome that a debtor, having fallen in default with his or her loan, will only be able to solve his or her accommodation on the leasehold market after the forced sale. The demand may also be strengthened by the factor that the homeowners would like to exploit the opportunity provided by the early repayment even at the expenses of being unable to purchase another real estate after the repayment of the loan at a preferential exchange rate. However, the increase of demand is

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