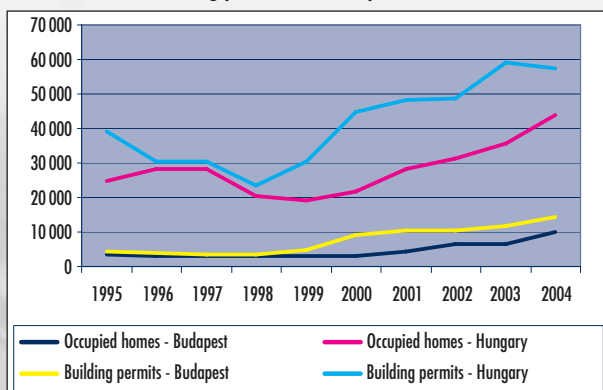


The year of 2004 can be definitely regarded as a turning point of trends in the history of the Hungarian housing market. According to different estimations the turnover of the residential property market has decreased by 30-50 per cent owing to the effects of the austerity measures concerning housing loans which have been in force since December 2003. The year of 2004 was spent in the spirit of adaptation to the changing market conditions by the participants of the real estate market (developers, banks, real estate agencies).

## Construction volume

According to the official statistics of KSH (Central Statistical Office), 44,000 new homes were occupied in Hungary in 2004, 24 per cent more than it was in the preceding year. On the other hand 57,500 building permits were given, 3 per cent less than it was in 2003. However a 21 per cent expansion was registered in Budapest. The number of occupied homes also grew chiefly in Budapest, by 61 per cent; almost one quarter (23 per cent) of the new flats were built in the capital and one quarter of the new building permits were also given here. The number of occupancy permits rose well above the country average in Fejér, Veszprém, Vas and Hajdú-Bihar Counties, but fewer flats were built in one third of the counties than in 2003. As for the number of building permits the largest increase was in Zala, Jász-Nagykun-Szolnok and Vas Counties.

Building permits and occupied homes



Source: KSH

The dynamism of 2003 still could be seen in the statistics of 2004. The growth in the number of occupancy permits was the direct consequence of a home-buying-rush at the end of 2003 which followed from the introduction of restricting measures to come. The dynamic increase in housing still could be seen mainly in the first half of the year, but the developments of 2004 Q4 were more unfavourable compared to the yearly average. The nation-wide decrease in the number of building permits corresponded to the fact that fewer home building projects were commenced on account of both increasing credit burdens and a drop in demand. However, people seemingly did not lose interest in home building in Budapest.

The significance of enterprises in the residential market was steadily growing in 2004. Around 16,000 homes were built by professional enterprises across the country, which was 37 per cent of the newly built flats contrary to the 31 per cent rate of the preceding year. At the same time the percentage of entrepreneurial home building came near to 73 per cent in Budapest. These facts were parallel with the tendencies that the average size of the newly built flats fell to 93.2 sqm in the country and 71 sqm in Budapest. Almost one third of the newly built flats in general, and more than half of them in Budapest are smaller than 60 sqm.

## Housing subsidy system, bank financing

The conditions of the housing subsidy system – which had been introduced in 2000 and modified in several steps until 2003 – were tightened up by the Government in December 2003. Owing to the austerity measures the loan amount one could take out for second hand homes got reduced to HUF 5 million, the credit interests related to the base rate of the central bank rose significantly and the amount of tax refund subsidy dropped as well. In addition, VAT on building plots was also introduced in January 2004 which caused a 6-7 per cent price rise for the sellers. All these measures made the home buyers' situation more difficult and caused a drop in demand as well. The amount of home construction and purchasing allowance, which had been increased in April 2004, could not counterbalance these tendencies.

Banks immediately responded to the drop in demand caused by the increase in credit interests and even in January they introduced foreign exchange based housing loans, which became very popular with those who intended to buy mainly second hand flats because of the higher forint interests. These developments caused that the foreign currency credits – because of the low interests – squeezed out the forint interests for the most part despite the exchange rate risk. According to the experiences of Otthon Centrum Credit Center the average credit amount which was claimed for second hand flats was approximately HUF 7 million, from which the foreign currency credits were 80 per cent. In the case of purchasing a new flat the amount was around HUF 8 million with 60 per cent foreign currency credit share (couples, those eligible for 'social policy' allowance preferred forint-based credits). With reference to different estimations approximately 70 per cent of the home buyers finance their purchase partly by some credit. On the other hand, the purchasers of high-priced real estates do not claim credit at all.

According to a survey of DEM Market Research and Information Office in 2004 the volume of housing loans dropped by 35 per cent, within housing loans the subsidized credits dropped by 56 per cent in comparison with the volume of 2003, while the volume of the non-subsidized housing loans increased by four and a half times.

The existing system of interest subsidies was criticised severely throughout the year partly because of the necessity of a high amount of own equity as well as the low amount of the 'social policy' allowance, which is available only to build or purchase a completely new home, partly because of the low maximum of subsidized credits. It is not a mere chance that the Government has tried to communicate its housing programme vigorously and planned to introduce it since January 2005 in order to offer assistance to young people intending to make a home. The main elements of the changes, which have been scheduled by the Government, would be the followings: undertaking a state guarantee for housing loans available for young people; introduction of the half-amount 'social policy' subsidy which can be claimed for second hand flats; an increase of the amount of the 'social policy' allowance. Contrary to these measures the effects of both the reduction of the limit of stamp duty exemption to HUF 15 million in the case of buying a new flat and the termination of tax refund will be reviewed unfavourably by purchasers.

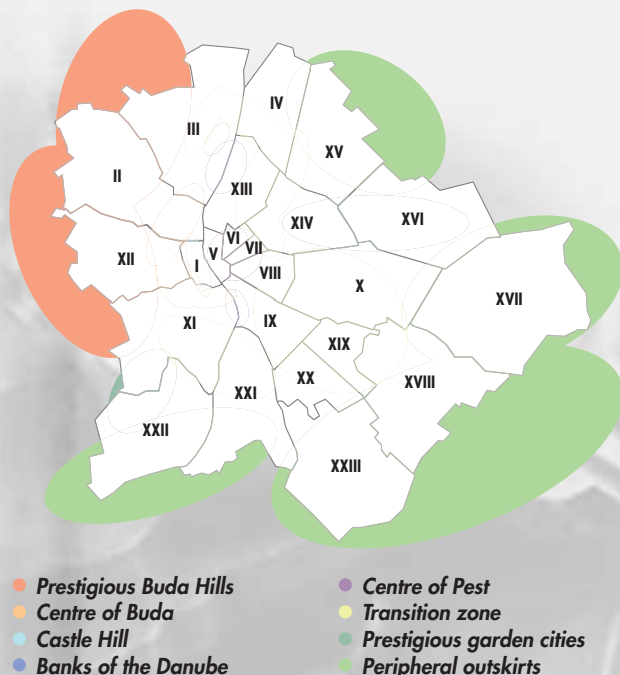
## The market of new homes

The turnover of the market of new homes has decreased significantly since December 2003 because of the restrictions concerning housing loans. The upswing which had been predicted in relation to the EU accession has not fulfilled the expectations as well. The facts that Hungary joined the EU simultaneously with nine other countries and the attention of the potential foreign purchasers divided significantly

among the countries had an important part in these developments. The legal state has not changed basically since 1 May 2004; the major investors who have a better familiarity with the housing conditions have already invested in Budapest so the date of joining the EU was significant only for the small investors who had been hesitating until that time.

The drop in demand was followed slowly by the restraint of the supply so oversupply followed on many areas, especially in the case of those projects which satisfied mass-market demands. Developers introduced sale-incentive methods because of the more and more intense competition for buyers. While purchasers were motivated by free or reduced-price services and equipment (kitchen furniture, storage, special price of the garage) at the beginning of the year, easy payment-plans were emphasized during spring and summer. The 10-90 and 20-80 per cent schedules of payment, which had not been widely used in Hungary so far, became very popular soon (10-20 per cent deposit when entering into the contract, 80-90 per cent remainder at the completion of the project) but it did not gain currency because it laid burden and risk on the developers. In addition, other terms adjusted to the personal demands of those intending to buy homes of high value were also offered. In 2004 Ottthon Centrum was the first to introduce its second hand flat inclusion programme with the intention of giving an incentive to the housing market, and as a consequence of this several developers joined because they realised the possibilities of the programme.

### The main segments of the market of new homes in Budapest



The gross price of new flats which have been built in condominiums shows a high deviation according to the areas of Budapest. The stagnating prices of the transition zone (in District 13, 9, 11 and lately in District 8) are around HUF 280-320 thousand. These projects satisfy popular demands and constitute the large part of the supply. In Angyalföld and central Ferencváros the sales-period stretched out significantly. At the same time developments in large numbers have been launched in District 8 in the surroundings of the planned Corvin Promenade. The former industrial zone and its surroundings in District 11 have enormous potential where thousands of flat constructions have been launched as well, and its big volume will also remain in the pipeline. In Buda the areas close to the centre

are getting more and more popular. The sales of the few condominium projects here (in the neighbourhood of Margit Boulevard and Alkotás Street) do not involve too much difficulty on average because the demands have not been satisfied so far. The outlying districts of Pest also have enormous potential because the developments concerning investments in residential parks and blocks of flats have been commencing only for two years.

Prestigious Buda Hills	500 - 700
Centre of Buda	400 - 500
Castle Hill	550 - 650
Banks of the Danube	400 - 470
Centre of Pest	350 - 450
Transition zone	280 - 360
Prestigious garden cities	320 - 400
Peripheral outskirts	270 - 310

**Typical gross square metre price of the newly built condominiums in Budapest by submarkets ('000 HUF/sqm)**

Source: Ottthon Centrum

Developments close to the city centre have been in great demand for years not only in the capital but also in the bigger country towns. The purchase prices of the newly built flats close to the city centre can be available up to the amount of HUF 300-350 thousand per square metre both in East and West Hungary.

In the first half of the last year investors from abroad (mainly from Ireland, the United Kingdom and Spain) intending to purchase with the aim of investments restricted their activity to the districts of Pest. Their yield expectations were below the average because of the favourable conditions of credit interests in their own countries, so they were prepared to pay higher prices as well. Their investments were based on the examples of both Dublin and London, where during the past decade there had been a very quick price rise in the areas near to the city centre. In accordance with the demand the purchase prices of the flats in the hearts of District 6 and 7 (and in District 5 although the supply of the newly built flats were reduced here) reached a level too high for the Hungarian buyers. These facts accompanied by the reduction of foreign investments caused a slowing-down in the sales processes by the second half of the year.

Within the framework of two projects (Sun Palace in District 3 and RiverLoft in District 13) lofts have been sold as novelties in the Hungarian housing market since 2004. These flats have been reconstructed from former factory buildings with large floor areas (100-150 sqm), open-space layouts, and their high ceilings are above average. The sale of the few dozen lofts may prove to be a success for the developers because of the reduced supply in this segment.

Ottthon Centrum has carried out a survey which deals with the preferences and possibilities of the buyers looking for newly built flats. The survey shows that there were considerable changes in the housing market of Budapest:

- While 28 per cent of the buyers of Pest looked for newly built flats under 40 sqm in 2003, 40 per cent of them looked for 40 sqm flats in 2004. At the same time the percentage of those buyers who wanted to move into a new flat above 120 sqm increased from 6 per cent to 11 per cent in Buda.
- While the percentage of the buyers looking for flats up to HUF 10 million increased from 25 per cent to 33 per cent in Pest, the same percentage decreased from 12 per cent to 6 per cent in Buda.
- While the percentage of the buyers looking for apartments up to HUF 300,000/sqm unit price increased from 59 per cent to 63 per cent in Pest, the same percentage decreased from 41 per cent to 17 per cent in Buda. At the same time the percentage of

the buyers intending to buy a new flat above HUF 500,000/sqm increased from 7 per cent to 10 per cent in Buda.

- The purchases in order to buy one's own home became more important than the purchases with the aim of investments as it is shown by the fact that functional interests have come to the front. While the question of number of rooms came in third place following the price and the type of the residential area according to the buyers' preferences in 2003 in Pest, this question came in second place following the price in 2004.

**Demand for new flats in Budapest by size (%)**

	Buda	Pest
Below 40 sqm	25	40
41-60 sqm	31	35
61-80 sqm	23	20
81-120 sqm	10	4
Above 120 sqm	11	1
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Otthon Centrum

**Demand for new flats in Budapest by total price (%)**

	Buda	Pest
Below HUF 10 million	6	33
HUF 10.1-15 million	21	30
HUF 15.1-25 million	28	20
HUF 25.1-35 million	18	12
HUF 35.1-50 million	12	4
Above HUF 50 million	15	1
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Otthon Centrum

**Demand for new flats by sqm price (%)**

	Buda	Pest
Below HUF 250,000/sqm	4	25
HUF 251-300,000/sqm	13	38
HUF 301-350,000/sqm	33	27
HUF 351-400,000/sqm	24	7
HUF 401-500,000/sqm	16	3
Above HUF 500,000/sqm	10	0
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Otthon Centrum

	Buda	Pest
Price	1	1
Number of rooms	2	2
Environment	3	4
Traffic conditions	4	3
Equipments	5	5
Services of the project	6	6

Source: Otthon Centrum

**Preference-list of buyers looking for new homes (1 = the most important, 6 = the least important)**

It can be seen that the restrictions concerning credit possibilities have deepened the differences between the purchasers of Buda and Pest in spite of the fact that these differences showed a downward trend previously. These strict measures affected mainly the buyers of the mass-market segment in Budapest, while the governmental measures affected the buyers of the more prestigious areas of Buda to a smaller degree in general.

By the expectations the activity of the developers will have continued not to decrease significantly. According to the information of Otthon Centrum the inauguration of 20 housing projects concerning more than 100 flats may be expected in the first half of the year. Greater emphasis has been placed on both the functionally better layout and the more attractive exterior of the buildings and flats with more efficient marketing and favourable price value.

## The market of second hand flats

The restrictive measures introduced in December 2003 influenced not only the large-scale increase in the interest rate but the market of second hand flats too, as a result of this the amount of the subsidized credit limit reduced to HUF 5 million. The drop in demand made its effect felt on the market of newly built homes as well.

Consequently it was necessary to spend considerably much time on the sale. It was proved by the fact that the flats were sold at a high price which could be seen in all segments. Consequently the purchaser was in a good bargaining position last year. The prices were stagnating during the last year; in addition, there was a drop in prices in the case of prefab flats which were the least popular with the buyers. On the other hand there was a continuous increase in value in the city centre proper and in areas close to the pedestrian precincts as well. The same thing happened in the case of those areas of Central Józsefváros which were close to Nagykörút because of the long-time rehab project of Corvin Promenade, where the selling prices of flats could be up to HUF 290,000/sqm. In these areas the developments by the flat owners also caused an increase in value concerning the whole housing stock.

## The nominal price rise of the owner-occupied flats by districts between 1997 and 2003 (%)

District 1	214	District 13	268
District 2	211	District 14	213
District 3	230	District 15	257
District 4	175	District 16	123
District 5	223	District 17	223
District 6	273	District 18	198
District 7	278	District 19	217
District 8	249	District 20	234
District 9	226	District 21	200
District 10	217	District 22	205
District 11	211	District 23	168
District 12	213	Budapest	241

Source: KSH

The results show that the most extensive price rise took place in the districts of the city centre (in District 6 and 7), where the prices increased by four times between 1997 and 2003 (the most recent data have not been published yet, but it is probable that the price rise slowed down considerably in 2004). The activity of the buyers from abroad also proved these facts that looked for used flats in the districts of the city centre of Pest last year. The price rise of the properties located in the city centre is typical in the county towns as well.

According to the sales experiences of Otthon Centrum in the town centre of Pest (in District 5) the selling prices reached a level last year which was not favourable for investments on reasonable terms. In the most preferred streets close to the river Danube, the Houses of Parliament and the Bazilika the prices of residential units may achieve the amount of HUF 400-500,000/sqm, additionally the prices of the flats on the banks of the Danube on the upper storeys with an exceptional panoramic view may achieve even the amount of HUF 1 million/sqm. The unit prices of the properties in District 6 where there is a shaping quarter of places of entertainment (close to Andrassy Boulevard and Liszt Ferenc Square) can also reach the amount of HUF 400,000/sqm. In the case of District 6, 7

and 8 the external and internal parts of Nagykörút indicate a difference in prices. In the prestigious parts of Újlipótváros the average sqm price is HUF 320-350,000, while the selling price of a flat in the suburb of Zugló is HUF 290-340,000/sqm. In the outskirts of Pest there are a lot of flats for sale of which prices are under HUF 200,000/sqm because of the majority of the old detached houses as well as the prefab housing estates.

In the quarter of villas of the prestigious Buda Mountains the selling sqm prices reach the amount of HUF 400-500 thousand, which is similar to the prices of flats in the distinguished parts of District 5. In the case of the quarter of Castle Hill the unit price of a residential unit can be up to the amount of HUF 350-450,000/sqm. The average price of a flat in the distinguished districts of Central Buda decreases by 5-10% compared to the prices of Castle Hill. The average prices of the flats on the elite prefab housing estates of Gazdagrét and Pók Street are up to HUF 220-230,000/sqm.

### The market of rental properties

There has been an excess supply in the market of rental properties for two years and as it is predicted positive change will not happen in the short term. On the one hand it is based on the fact that between 2000 and 2003 a considerable percentage of the purchasers bought a flat in order to rent it out by profiting from the favourable credit conditions. On the other hand there has been a drop in demand contrary to the increase in supply and foreign companies in large numbers have not appeared in Hungary recently.

The two- or three-roomed flats are the most popular up to 100 sqm in Buda. The most preferred areas are in District 2 and 12 which are close to the city centre. Generally 70-80 per cent of the tenants look for newly built flats, while the letting of prefab flats and old detached houses is more difficult. While properties are rented mainly by families in Buda, Pest is popular with unmarried young people (from university students to managers). Consequently flats in demand in Pest are smaller in size and it is possible to let out studio apartments and one-bedroom flats on favourable terms.

The difference between the two parts of the town manifests itself in the amount of rents. While the typical rent is EUR 800-1,000 per month in Buda, it is reduced to EUR 500-700 per month in Pest. In the case of well-situated but smaller flats this amount may be EUR 300-400 per month in this segment. These prices have not changed for 3-4 years so it is worth buying real estates in order to let only in the most popular districts of the town in such circumstances of the market.

### The market of building plots

Despite the stagnation of housing market building plots which were suitable for condominium investments were in great demand during the last year. In this segment developers preferred those vacant plots which were suitable for constructing condominiums with tens or hundreds of flats. In Budapest the most popular areas are the city centre inside the Nagykörút, the central parts of Districts 8 and 9 as well as District 3 in Buda. The demand for areas of District 13 has dropped to a certain extent because of the oversupply in the housing market. The same reason accounts for the fact that the former industrial areas of District 11, which have a huge development potential, will be developed only in the near future. There is also a low demand for vacant plots mainly in the distinguished green belts which are restricted to construct fewer than 10 flats.

The market has adopted a wait-and-see attitude; most of the buyers of building plots are going to launch developments just in few years.

Consequently arrangements, possession of building permits are not necessarily involve advantages. The most active developers of the housing market are from Israel who surpass even the Hungarian companies and keep looking for vacant plots suitable for building condominiums. Their activity has already increased in the bigger country towns as well. Besides in 2004 Irish and Spanish companies appeared as new-comers in the Hungarian housing market and their activity restricted to the city centre and the prestigious areas. The wait-and-see attitude is typical of their market presence.

### The typical prices of building plots suitable for condominium projects

Location	Net plot price projected on net saleable sqm of residential area (HUF)
Central areas of District 2 and 12	65 - 110.000
Areas of District 6 and 7 inside the Nagykörút	65 - 100.000
Areas of District 6 and 7 outside the Nagykörút	45 - 70.000
Former industrial areas of District 9	35 - 50.000
Rehabilitation areas of District 9	40 - 60.000
Angyalföld in District 13	30 - 40.000
District 14	30 - 80.000

Source: Otthon Centrum

There has been a small-scale activity in the market of building plots suitable for building detached houses for 2-3 years. The number of transactions has decreased by about 50-65 per cent since 2000. There is a greater demand up to HUF 10 million which signifies the theoretical price limit. This category contains suburban areas in the first place. There has been an increasing activity with the aim of speculation in the south-eastern part of Budapest and its agglomeration areas including Szentendrei Island because of the construction of the M0 ring road. At the same time the turnover in the HUF 20-100 million price category is very small which has been caused by the drop in demand. In this category the demand is restricted to buyers (entrepreneurs, people holding a top position) who set about building their own villas and family houses in the past decade and this target group has not reproduced itself since then. In this segment only those sellers could sell their plots who are ready to drive a bargain.

The acceptance of the scheme which regulates the use of the areas of Budapest and its agglomeration may give a stimulus to the market of plots in the conurbation areas but it has been dragging for a long time. It is expected that the scheme may restrict the possibility of incorporation of the plots into building areas and reduce the supply as well. Contrary to the possible balance of demand and supply there may still be an excessive supply of vacant plots.

While the introduction of VAT on plots divided into parcels caused a rise in gross price in 2004 and made the sale more difficult, the real value of the selling prices of private plots decreased by 3-4 per cent. It does not necessarily mean that there has not been an increase in real value on areas close to infrastructural developments.

For more detailed and structured analyses according to demands please, contact us:

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