

The adaptation to the changing market trends continued in the first half of 2005 after the shock of 2004. The housing market's segmentation is going deeper. Thus the evaluation of its performance gets more and more difficult. Widening credit options, soaring foreign exchange credits and new constructions starting day-to-day in the capital city stay in contrast to mass-market oversupply, slackening rental market and slowly moving market of building plots suitable for family houses.

## Construction volume

According to the first-half statistics of KSH (Central Statistical Office) 15,000 new homes were occupied and nearly 25,000 obtained the building permits in Hungary. The number of completed homes is 11% more than in the first half of last year. This is likely due to the home-buying boom at the end of year 2003. We may get a more reliable picture, clean from the effects of this rush, in the second half of the year. On the other hand, the 10.5% decrease in the number of building permits shows the expectations of the market. Building homes is increasingly concentrated on Budapest: 31% of occupied homes as well as of building permits were issued in Budapest, although a year ago this rate was 19% and 24%, respectively.

Parallel to Budapest's dashing growth the county capitals fall back the most. The number of finished flats here decreased by 20% and the number of building permits issued was 36% less than in the first six months of 2004. As for the number of building permits, Bács-Kiskun, Fejér and Tolna counties issued half as much as last year, although Veszprém issued 76% more and Komárom-Esztergom 26% more. The largest decrease in the number of completed flats took place in Veszprém, Vas and Békés, while the increase was the largest in Heves, Zala and Borsod-Abaúj-Zemplén.

The 4,619 flats completed in Budapest in the first six months show a 79% increase compared to last year. The 7,638 new building permits – a 14.5% increase – show the developers' unbroken trust in the capital city's housing market. The rate of flats built by professional enterprises grew from 69 to 83 percent in the capital city. This number is steady elsewhere, which results in an average increase from 35 to 42% for the country, as a whole. In Budapest, only every 15th home was built in a single family house this year. Parallel to an increased activity of the developers and with home construction for sale gaining on, the average size of newly built flats kept falling, from 71 to 62 sqm in Budapest and 93 to 89 sqm in the countryside.

## Housing subsidy system, bank financing

In February 2005 a 'Nest Creation Programme' was introduced by the Government. Primarily it helps young adults in setting up homes. Its main elements are the subsidized housing loan with a small amount of own equity, as well as the halved welfare contribution allowance, which can be claimed for second-hand flats. The programme is supplemented with a loan facility for public servants and a renewed rental subsidy system. Besides, the Government raised the amount of welfare contribution allowance too.

However, besides positive decisions, some restraints were also initiated. The VAT refund was cancelled and the limit of stamp duty exemption was reduced in the case of purchasing newly built homes.

The new system was criticized already at the introduction, because of low age limits and flat price limits as conditions as well as low maximum of subsidized loans. Governing parties estimated the number of households supported by the new programme well above ten thousand this year. The opposition predicts that only well possessed households grant themselves the subsidized housing loan as the newest element, since the large amount of the loan results in larger amounts of monthly instalments.

The changes containing positive and negative elements made it difficult to estimate housing market performance for the whole year. According to the Government's report, 4,390 subsidized loans, 7,409 halved welfare contribution allowances and more than 5,000 welfare

**Main changes in the housing subsidy system from January-February 2005**

Action	Details / conditions	Target groups
<b>Guarantee fund on the housing loans for young adults</b>	Home purchasing with as low as 10% own equity; own equity can be welfare contribution allowance, employer loan, etc. Price limits: new homes in Bp. and larger cities 15 mn HUF (60,000 EUR) (excluding plot price), in the countryside 12 mn (48,000 EUR), used homes in Bp. and larger cities – 12 mn (48,000 EUR), in the countryside – 8 mn (32,000 EUR). Can be gained for purchase and construction also. Guarantee fee: 2% of the loan amount.	(Married) couples under 30 years, or singles with child(ren) if they don't own a home. For those who do not have enough own equity but have high monthly income.
<b>Home purchasing allowance for young adults (a half-amount welfare contribution subsidy for used homes)</b>	A halved welfare contribution allowance can be claimed for used homes, non-repayment subsidy. Price limits: in Bp. and larger cities 12 mn HUF (48,000 EUR), in the countryside 8 mn HUF (32,000 EUR).	(Married) couples under 35 years or singles with child(ren) if they don't own a home.
<b>Stamp duty allowance changes</b>	Stamp duty free limit decreases in case of new homes from 30 mn HUF (120,000 EUR) to 15 mn HUF (60,000 EUR). For units between 15 and 30 mn HUF (60-120,000 EUR), 6% stamp duty must be paid only after the sum above 15 mn HUF (60,000 EUR). For homes above 30 mn HUF (120,000 EUR), stamp duty must be paid for the whole sum: 2% up to 4 mn HUF (16,000 EUR), 6% for the part above. (The limit stays for used flats: 2% up to 4 mn HUF (16,000 EUR), 6% for the part above.)	Buying or building new homes above 15 mn HUF (60,000 EUR).
<b>Cancellation of VAT payback</b>	The government terminated the 60% VAT payback (max. 400,000 HUF (1,600 EUR)) for new homes.	New home buyers / builders.
<b>Raising welfare contribution subsidy</b>	The amount of welfare contribution allowance rises to 900,000 HUF in case of 1 child, 2.4 mn HUF for 2 children, 3.8 mn HUF for 3 children, 4.6 mn HUF for 4 children.	Couples or singles raising children, buying a new home.
<b>Easing home purchase for public servants</b>	Loan without own equity for public servants like for civil servants (state guarantee fund covers 100% of the mortgage)	Public servants buying a home. (3 years of public employment needed)

*Note: No change in the limit of the government-subsidised loans – 15 million HUF for a new home, 5 million for a second-hand one.*

contribution allowance contracts were signed within the framework of the 'Nest Creation Programme' in half a year. The contracts' amount is altogether HUF 40 billions. The large number of people applying for the halved welfare contribution allowance shows that these positive changes can boost the second-hand market. It will be even strengthened, if the age limit of guarantee fund loans would be raised at least up to 35 years and the subsidized loans' upper limit would be increased up to even HUF 7 millions.

According to a Central Bank survey, housing loans were the most popular among loans applied for by households. The readiness of the banks to extend such loans also increased, while standards, terms and conditions were eased more than in the case of consumer loans. In addition, the introduction of the unified THM indicator (Teljes Hitel Díj = total borrowing charge) for the housing loan brought a major

contribution to the comparability of the different loans. Most of the banks indicated a further alleviation of the creditworthiness standards for the remainder of the year, that is, we can expect that the trend will continue.

According to a summary of DEM Information and Business Research Board, the volume of the different housing loans in the first half of the year was as follows (data in billion HUF):

	1H2004	1H2005
Without subsidy	47,4	124,2
Housing subsidy	85	35,8
Subsidy for newly built homes	97,3	58,4
Total	229,7	218,3
Share of subsidised loans (%)	79,4	43,1

That is, the spectacular expansion of the market-based loans denominated in foreign currencies continued after 2004 as well. But according to the experts of Hitel Center ('Loan Center') the continuous decline in the central bank's prime rates (these stood at 7% at the end of June), this trend shows a slowdown, at the same time, the share of subsidised loans seems to stabilise at the relatively low level of 40-43%.

In the case of the government-subsidised loans, the average loan size is continuously diminishing: in the first half of last year, the average loan amount was 7.2 million, in the case of the second-hand properties it was 4.6 million, but this year only 6.2 and 3.2 million. There are signs that among the borrowers, there was an increase in the share of lower-income people.

## Market of the newly built homes

As opposed to the hopes observed early this year, the experiences in the first half of the year show that the positive effect of the 'Nest Creation' Programme did not materialise on the market of the newly built homes, as the most successful element therein proved to be the so-called 'halved welfare contribution', available for the purchase of second-hand homes. As a result of the change in the levies introduced this year, there was a spectacular drop in the category above 15 million HUF. Even though there was a boost in the turnover this spring, the developers did not take the risk to increase the housing prices – with the exception of a few top category projects.

The polarisation between the mass market and that of the higher category properties grew further. While in the segments characterised by oversupply, the developers continue to suffer from difficulties in sale, there is an increasing number of unique projects where the homes are sold without any problems, even at multiples of the average price.

The higher prices are in many cases (typically in downtown Pest) assume the interest of foreign buyers. According to the data of the Ministry of the Interior, while for the whole of the country, there was a 1/5th drop (to 2,651) in the purchases of foreigners in Hungary, in Budapest, almost the same number of transactions (892) was related to foreigners. (It is important to note that this applies only to purchases of foreign individuals, transactions through companies are excluded.) The Irish and the British accounted for 57% of the volume in the capital city and so, they represent the largest community among the buyers. The Irish buyers, where the numbers are somewhat declining, give preference to Districts 5, 6 and 7 and in these areas, their development activity also increased. (Irish investors are behind one of the luxury apartments investments, in District 5 of Budapest, avoided earlier by housing property development, and there are several such projects in the planning phase.) A new element is the emergence of a large number of Spanish buyers and property developers in the downtown segment.

An optimism towards the housing market of the capital city is demonstrated by the fact that development firms who had already proven themselves on the market, launched a dozen of large volume development

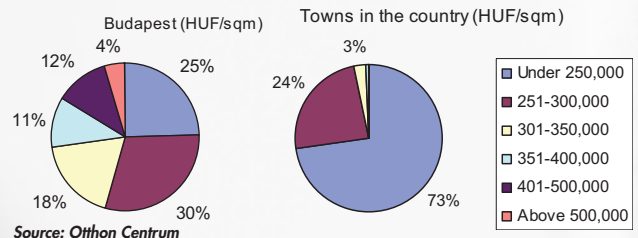
projects in the first half of the year and there are several of these under preparation. As opposed to all that, the developers' activity dropped in the towns and cities of the countryside.

A characteristic development is that more and more projects with large numbers of flats start in the peripheral districts, especially on the Pest side. Here, in District 18, is the activity of the developers the strongest, but several new investments were launched also in Districts 16, 20 and 21. In the same way, on the Buda side, for instance, District 22 came up to the 'map' of the developers. But by now, large development projects are missing only in districts (such as 23 and 15) that are considered by the investors to be the least attractive from the point of view of starting a large project (for reasons like slow access, lack of demand). Nevertheless, the most important market movements can be observed, as earlier, in Districts 13, 9, 8 and 11, with the highest number of flats offered for sale. Here, due to the permanent fall of the interests on the loans, an increasing number of students of the universities and high education purchase residences, instead of renting.

The high prestige category is expanding most of all on the Pest side. While in Districts 2, 12 and 3, on the whole, the sales of newly built homes dropped, there is an increasing demand for apartments in downtown Budapest. In District 5 and in the portion of District 6 within the boundary of Nagyköőrút, a number of residential projects were launched that do not appear on the Hungarian market at all, as in those cases, almost exclusively foreign buyers purchase homes, first of all, for investment purposes. The other major attraction point is the Danube, with the building and planning of a whole lot of new flats, at quality levels and prices above the average. (Thus, for instance, on the area behind Duna Plaza, an actually new city area is to be born, with a total of several thousand flats in a number of projects, to be fully supplied with facilities).

Flats of small size continue to be in demand. By now, on the mass market, the flats with one and a half and one room + two half rooms are the most popular, in sizes as small as possible (as cheap as possible). A still very successful method for initiating sales is the advantageous timing scheme for payment (10-90%, or 20-80%).

## Price requirements of newly built homes



Even if unit prices of 400,000 HUF per sqm are not exceptional in the proximity of the city centres in the countryside, highest in demand, the price levels usually lag significantly behind the average in Budapest. As a general rule, the prices of the higher categories typically break away from the price levels of the mass market products.

The market of large volume development projects is still dominated by the Israeli firms in the capital city. As they have a knowledge of the market since some time, they maintain a wide-range contact network with each other and can be characterised by higher expectations in terms of returns, agility, fast decision-making, the newcomer western companies emerging lately are less self-confident, at present, they are only mapping and analysing the opportunities on the market.

At present, in the field of development projects with four or more apartments, there are, according to our knowledge, about 120-150 active investor companies on the housing market of Budapest. What makes orientation difficult is the presence of project companies set up by the parents for the administration of the individual projects. From these 120-150 firms, about 25-30 are still active, usually investors with several large parallel projects account for the dominant portion of the flats under construction. In the case of the major Hungarian firms, specialisation by area is quite frequent. In the same way, if we take the four-flats category as

a minimum, at present there are about 300-350 residential projects underway in Budapest. We list here the development projects available for sale, appearing on the market, that is, the completion dates might be in the range between 2004 and 2007.

Parallel to a strengthening of the market, the increase in supply and a general expansion of housing purchases, the buyers are increasingly cautious and aware. As a consequence of the oversupply, their bargaining positions are also strengthening. The developers calculate with higher marketing costs to contact the buyers. And in the advertising of the residential projects, Internet presence plays an increasing role.

**Preference list of people looking for newly built homes**  
(1 = most important, 9 = least important)

	Buda	Pest	Towns in the country
Price	1	1	1
Nice neighbourhood	2	3	3
Built-in facilities	7	5	7
Number of rooms	3	2	2
Transport connection	6	6	5
Which floor?	5	4	4
Orientation	4	7	6
Supply in the neighbourhood	8	9	8
Services in the project	9	8	9

Source: Otthon Centrum

The question remain what the effect of the reduced upper level of the value added tax, applicable from January 2006, within the framework of the tax reform announced in June, from 25% to 20%, as one of the most important elements of that reform. In recent years, it could be observed that planned government measures announced in advance have a mitigating or, actually, boosting effect on demand in the months preceding their implementation. In the present case, we can logically expect again that, in the hope of a 4% decrease in the price, potential buyers are postponing their purchases of newly built homes to the next year, that is, there might be a drop in the turnover in the second half of the year.

At the same time, the planned measure, together with its price diminishing effect, is expected to have an impact also on the contracts signed this year, if the flat shall be completed after January 1. The reason is that according to the VAT Act, the date of settlement is the payment of the advance on the purchase price, on the one hand, and the date of occupancy, on the other. Accordingly, for an advance paid this year, a 25% VAT is payable, but for the payments due in 2006, the VAT only is 20%.

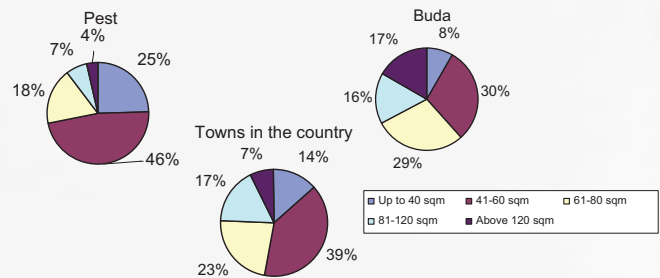
Therefore, for the developers it is reasonable to offer the flats against a downpayment, as small as possible, for this year (in a 10-90% or a 20-80% scheme) and to decrease the gross price already this year with next year settlement's VAT differential. This way, they can achieve the turnover they calculated with for this year and, at the same time, the buyers are also better off. In addition, developers who react fast may obtain a price advantage on an oversupply market, whereby the actual price reduction can be further increased by associated sales campaigns.

## Market of second-hand residential properties

As already mentioned earlier, the elements of the 'Nest Creation' Programme introduced in February provide assistance first of all to the buyers of second-hand residential properties. However, this could not result in a boost in the turnover stagnating since last year. According to the data of the Budapest Duties Office, by the end of June only the sale and purchase contracts of 27,000 homes were received, and this is much less than the figure for last year. About one-tenth of the properties sold are block flats. According to the records of the Office, in the last three and a half years, only 180 properties were sold where the value exceeded 100 million forints, the owners shall pay from next year a luxury tax, according to the plans of the government.

According to our survey, due to the limitations set by the 'Nest Creation' Programme, 41% of the would-be buyers are looking for a home up to the price level of 12 million in the capital city, the same ratio in the towns of the countryside is 54%. In the same way, the share of the buyers in the price range up to 250,000 HUF/sqm is 49% in Budapest and 86% in the country. This difference is spectacular, also if we take into consideration that the above data, both in the case of the capital city and in the case of the towns in the countryside include outstanding extreme values.

**Size requirements of people looking for second-hand property**



Source: Otthon Centrum

Due to an ample offer and a fallback in demand, the buyers continue to be in good bargaining positions. All this is confirmed by the fact that in several areas (first of all on the mass market), where there is since long no increase in the prices of new homes, the price levels of the newly built and second-hand properties is getting closer and closer. The reduction of the VAT rate to be introduced next year, exercises another downward pressure on the market of second-hand properties. Those who are selling their homes will be compelled to reduce their prices, at the same time, private individuals will be increasingly reluctant to do so (there is no 'hands-on' constraint) and the decrease in prices shall turn out to be slower.

## The market of rented homes

On the market of rented homes, no noteworthy change occurred in a comparison with the trends in 2004. There was no decrease in oversupply, accordingly, the prices did not increase either. It is rather that those who would like to sell their homes are often compelled to accept major allowances. A typical phenomenon is that more and more people contact property agencies about their offer for rent.

More and more potential tenants take the option of buying a flat (students, their parents who live in the country, young people from the countryside with temporary job in Budapest or where the home is for managers of foreign companies). Downtown Pest is one of the most searched-for target in renting, where many newly built properties in the high categories are bought by foreigners, explicitly for the purpose of investment (renting out). While the monthly rentals are, on the left bank of the Danube, usually below thousand euro, on the Buda side, even a fourfold of that is thinkable and, in addition to the cheapest homes, it is exactly in this category that there is perceptible demand – even though it is far from the levels of the nineties.

## The market of building / development plots

Following 2004, this year as well, a significant demand characterises the market of land applicable for the building of condominium houses. New players are the Spanish firms who, as a result of the saturation of the market in their country, came in large numbers to the investment market. They make their business decisions usually slower than Israeli developers, for instance, but they usually have 'more understanding' about red tape, difficulties about licensing.

In compliance with the processes on the housing market, downtown Pest continues to be on the top, within that, its portion bordered by Nagykörút. Development opportunities with particular attractions

became demanded (such as the Danube bank or the building of historical value, neglected earlier). There are developers who are explicitly looking for this kind of properties for sale, in order to arrange, first of all for foreign buyers, lofts or exclusive apartments. The price of these, due to the narrowness of the supply, the high investment costs and the targeted foreign demand, usually is higher than the typical prices for newly built homes in the neighbourhood. It is simply that market forces provide for the 'know-how' necessary for this type of development projects.

In Buda, this year, demand is growing also stronger for building land for higher category condominium properties. Both in inner Buda and in the green zone areas, land for investment projects with at least twenty, but rather fifty homes are also high in demand. As opposed to that, in the first half of this year, on the whole, interest is declining towards the mass market segment and is increasingly limited to areas in the proximity of local subcentres. The developers are increasingly deliberate in pondering whether or not there is some major development project likely to saturate the market within short or whether or not the existing competition is already so tough that it would be risky to come up with another large investment.

In addition to District 9 and 13, frequently mentioned, Zugló (District 14) seems to join in terms of saturation, as well as the brownfield zone of District 11. Here, at present as well, there are several thousands of homes under construction or preparation, according to the estimates of the local municipality of Újbuda, in addition to the seven thousand occupancy authorisation issued in the period 2002-2005, we should calculate with another eight thousand between 2006 and 2010 in that district. As opposed to all these, in District 3, where not too much development is going on, there is demand from developers even for projects targeting the construction of several hundred homes.

In downtown Pest, the areas outside Nagykörút remain popular, but the price differential in terms of land continues to increase, in a comparison with the inner areas (one or two years ago, this was 20-30%, but by now it might reach even 60-80%). Mid-Józsefváros is also a gradually upcoming area, with a further increase in the number of plots offered for the construction of condominium houses and so, prices were also doubled. Demand is vigorous, but increasingly segmented and is significant first of all in the streets closer to Nagykörút and, to a smaller extent, to the area of the Corvin Sétány project. The success of the planned (and launched during the last month of the first-half, with the start of the demolition work) city rehabilitation project might generate a further increase in that District.

In the rehabilitation area of Mid-Ferencváros, favoured by developers since about good ten years, land is sold by the local municipality in smaller packages. As supply is therefore artificially restricted, it finds the owners fast. As a result of the appreciation impact from Millennium City Centre, the most recent significant development projects were launched in the proximity of Soroksári Road and Haller Road. This, as a result of the strengthening demand for land, the prices increased by 50% in the last almost one and a half years. The development potential fits well the needs and the new projects with 100-150 homes are considered to be of just ideal size on the market.

As opposed to land for condominium projects, on the market of land properties for family home construction, the toned-down demand in the years 2001-2004 brought a major decrease in the prices by this year. In 2005, in the capital city, one could obtain a building plot for a family home at prices that were, even in nominal terms, 5-10% below the levels of 2001-2002 and this implies an even more important price fall in real terms. Exactly due to the decline in price levels, the accumulating oversupply is compensated by the absorption capacity of the market. This situation is true both for the luxury category in Buda and the districts of Outer-Pest as well.

A polarisation of the market is also clearly observable. As opposed to the levelling of the prices during recent years, in the luxury category

(the market of the mountainous parts of Districts 2, 3, 11 and 12) the price of a plot with good features can exceed the average for the neighbourhood by up to 50%. The same proportion in District 16's Ómátyásföld might reach even 60-100%.

In the agglomeration zone around Budapest, wide supply of land faces narrow demand. From the point of view of marketability, in addition to transport infrastructure, the availability of the utilities and the proximity of services have decisive importance. The extent to which the neighbourhood is covered with building, the efforts needed to

### Typical prices of building plots for condominium development

Area	Net plot price projected on net saleable sqm of residential area (HUF)	Price trend to the previous half-year
Central areas of Districts 2 and 12	70-120.000	↑
Districts 6 and 7, parts within Nagykörút	80-130.000	↑
Districts 6 and 7, parts outside Nagykörút	60-80.000	↑
Former brownfield zone of District 11	30-45.000	↓
Rehabilitation areas of District 9	40-60.000	-
The Angyalföld region of District 13	35-50.000	↑
District 14	30-70.000	↓
Rehabilitation areas of District 8	30-45.000	↑
District 10	15-25.000	↑

Source: Ottthon Centrum

completion is very important in the case of plot sale projects (which are newly very rare). Those who had bought land in a good location, with fast development, i.e. in the framework of successful lot sale projects (e.g. Üröm-Péterhegy), could realise in a couple of years, a significant increase in the values (in particularly favourable cases, up to a twofold increase).

Due to the difficulties with sale, reinforced by the introduction of a VAT for land from January 1, 2004, in the last one year and a half, no major lot sale project was initiated, even though several such projects are under preparation, typically on the basis of former development projects that proved to be a success.

Areas that clearly continue to appreciate include Biatorbágy and its neighbourhood. It is true that the supply is wide and this restricts an increase in the prices. In the last 2-3 years, in Nagykovácsi, the reclassification of Savanyító, Zsíros-hegy and Remeteszőlős as inner areas and their improvement in terms of utilities boosted the market. In connection with the construction of the MO motorway, speculations are losing ground, due to the delay in the investment in the northern portion of the capital city. As opposed to this, the south-eastern portion of the motorway ring shall become operational within short and its construction can start also in the eastern sector, and so here (in the regions of Pécel, Maglód, Ecsér) a sustained price increase can be expected. Successful parcelling projects could be launched now also in Gödöllő, Dunakeszi and Vecsés.

The above analysis is an extract from a comprehensive housing market study, updated twice a year, to be ordered at the price of HUF 750,000 + VAT at the contact addresses below.

In addition, if you have any need for the preparation of a tailor-made housing market analysis, please contact us:

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AZ ÉV INGATLAN-FORGALMAZÓJA  
 REAL ESTATE BROKER OF THE YEAR  
 1999  
 2000  
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