

Last year's negative records in the construction of residential property, the economic austerity measures and the increasing energy prices, uncertainty due to the property tax to be introduced next year and the drop in the stock of new housing loans in March should give reasons for pessimism regarding the future. Nevertheless, the residential market made a good start in 2007; for the time being, no fall is experienced in the demand or in the investors' appetite for construction.

CONSTRUCTION VOLUME

According to data of the Central Statistical Office (KSH), in 2006, occupancy permits were granted to 34,000 homes and, nationwide, construction permits were issued for 45,000 new homes. To the figures of one year ago, this represents a decrease of 18% and 13%, respectively. An above-average drop occurred in the capital city, where the number of new homes occupied (8,239) was one-third less and the number of new applications for permits (11,514) was one-quarter less than in 2005. The drop in the two volume indicators was the largest in the 3rd and 4th quarters of the year. Small and medium-size towns were affected the least.

With the exception of the self-managed construction, an above-average drop was observed in all groups of builders. Enterprises, breaking the trend ongoing since 2000, built 20% less homes than in 2005. Their share nationwide decreased from 45 to 43%, in Budapest from 84 to 80%. This means that the drop in construction of multiple-home projects was above the average. That said, i.e. parallel to an expansion of the family home scheme, the average ground area of new homes increased by 3 sqm, to 89 sqm for the whole of the country, while in Budapest, an increase from 62 to 67 sqm took place.

With the exception of two counties (Fejér and Nógrád), the number of newly occupied homes fell all over the country, but most of all in Budapest (by 33%) and in Heves county (by 35%). Still, in 8 counties, the number of newly issued construction permits was larger than one year ago even though in another 8 counties, a decrease of more than 25% was seen.

It would be too early to make any estimates for the current year, but the latest, 2007 Q1 data of KSH give reasons to assume that in terms of construction volumes, last year was the lowest point. The increment of 6%, as compared to the same period of last year, in the number of construction permits issued, both in Budapest and the countryside, may indicate an enhancement of the appetite for construction.

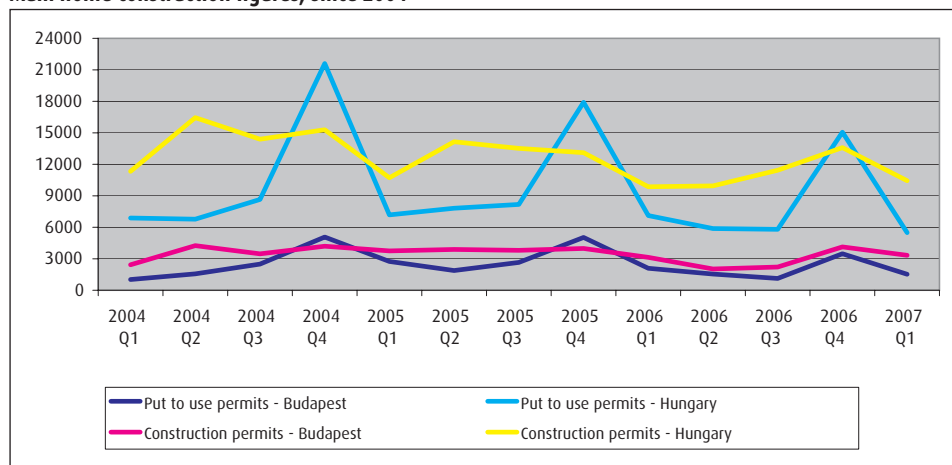
HOUSING POLICY, BANK FINANCING

In 2007 no government decision is expected that could provoke an immediate response on the housing market; at the same time, the discussion and approval of the bill on property tax to be introduced next year may show its effect already in the second half of the year. Here, however, two simultaneous trends can materialize: on the one hand, the sellers will try

to incorporate into the prices the extra costs, but on the other hand, the tax might result in a reduced turnover and an expansion in offer, leading to price reductions. Of course, an important question is what sort of exemptions will be given to the owners of properties and what the actual taxation ranges shall be. Market effects (pricing, demand, supply) will become predictable in a differentiated way only in knowledge of these. Another interesting issue is the method to be used for the assessment of the property stock. At any rate, due to the importance of this issue, several topical forums have been set up to date by professionals.

With the participation of almost two hundred professionals and public players, organized by the Hungarian Real Estate Council, the Hungarian Real Estate Parliament was set up. The president elect is László Borsi, former president of the National Office of Housing and Construction (OLÉH), an entity which ceased to exist in September 2006. The main target of the organization is to give recommendations for politics, in an endeavor to establish efficient cooperation, on the desirable directions of economic processes within the scope of this profession and on the tasks to be solved together (including the issues relating to property tax as well).

Main home construction figures, since 2004



Source: KSH (Central Statistical Office)

By the deadline of March 15, a total of only 585 luxury tax returns were received in the country, and roughly 120 million forints were paid in tax to the local municipalities. This is only a fraction of the government revenue hoped for at the time when the tax was launched, and so, there are good reasons to qualify it as a failure.

According to data of the National Bank of Hungary (MNB), this March, for the first time since seven years, there was a decline (-23% to February, or 5.2 billion forints) in the stock of retail housing loans. Even if experts say that the decrease in real wages played only a minor role in this respect, the question is when the reduced willingness to borrow will become evident (if ever) on the housing market, performing well for the time being.

Within all housing-purpose loans, the share of subsidized loans is only 23 % now. Due to the favorable interest rates, borrowers take debts almost exclusively in Swiss francs, and the current strength of the forint further increases the confidence of the population in such loans. The volume of loan contracts for subsidized loans available for homes bought from previous owners is barely half of last year's levels, and there was a major reduction in applications for subsidized loans available for new homes as well. As opposed to that, demand for unsubsidized loans (mainly based on Swiss francs) con-

tinued to increase. The average size of market-based loans is 5.6 million forints. Now even in the case of these loans, the average loan size is higher than in respect of subsidized loans available for the purchase of newly built homes.

Stock of housing loans and mortgage equity withdrawals

	Stock of housing-purpose retail loans		Stock of mortgage equity withdrawals (CHF and EUR)	
	HUF bn	Difference to the previous month (HUF bn)	HUF bn	Difference to the previous month (HUF bn)
November 2006	2665,3	33,2	729,6	15,6
December 2006	2699,5	34,2	746,4	16,8
January 2007	2736,5	37,0	779,9	33,5
February 2007	2758,4	21,8	803,2	23,3
March 2007	2753,2	-5,2	807,7	4,5

Source: MNB (National Bank of Hungary)

As to housing loans with preferential interest rates, on a forint basis, having boosted in 2002 in the framework of a government-subsidized housing program amended several times, their first five-years interest periods are about to expire now. An analysis of BG Mortgage & Leasing points out that a replacement of existing loan contracts may result in more favorable conditions for the loan's continued redemption. According to the calculations, for all of those who are now repaying their housing loans at an interest rate of 8% or above, it makes sense to consider such a change.

The year 2006 was the period when property lease shot ahead, and 2007 may be the year of home leasing. According to data of the Hungarian Leasing Association, in the first quarter of 2007, in a comparison with the same period of the previous year, property financing expanded by 140 %, and within total allocations, home financing already reached 23% (in absolute terms, 6.6 billion forints).

MARKET OF THE NEWLY BUILT HOMES

This year started in accordance with the more optimistic expectations on the housing market. Market fears due to the austerity measures proved overestimated until now. The traditionally moderate turnover at the beginning of the year gained momentum earlier than usual, partially due to the fact that Lakásvásár ('Home Fair'), an event used by market players (investors, distributors, banks) also for a testing of the market environment, was held earlier this year. In the first quarter of the year, we overfulfilled our plans in respect of the larger projects sold by our company. A somewhat weaker April, however, could forecast some slowdown in the turnover for the second quarter.

Perhaps always, the most important question is how housing prices shall develop during the year. As it could be clearly seen at the beginning of the year, with effect from January 1, investors increased their prices for many projects, automatically, by 1-3%. In the case of investments where no contractor agreements were signed yet, due to the increase in contracting costs, further price increases are likely or took already place. Where an agreement was already signed, an eventual price increase is subject to individual decisions of developers, depending on the construction phase, sales perfor-

mance. But for the year as a whole, a price increase of 5-7% shall be expected in respect of new homes (up to 10%, in the case of projects that are most in demand).

Consciousness of home buyers is growing and their market knowledge continues to expand. Requirements to quality are emphasized in each segment. For buyers of newly built homes, by now not only the references of the investor, but also those of the contractor may have a decisive importance in decision-making. Parallel to the development of the market, all that is equally true for most of the large cities in the countryside, and for demand in Budapest.

According to our continuously updated database on residential investments in the capital city, this year, with the exception of three districts (4, 12 and 23), more homes will be

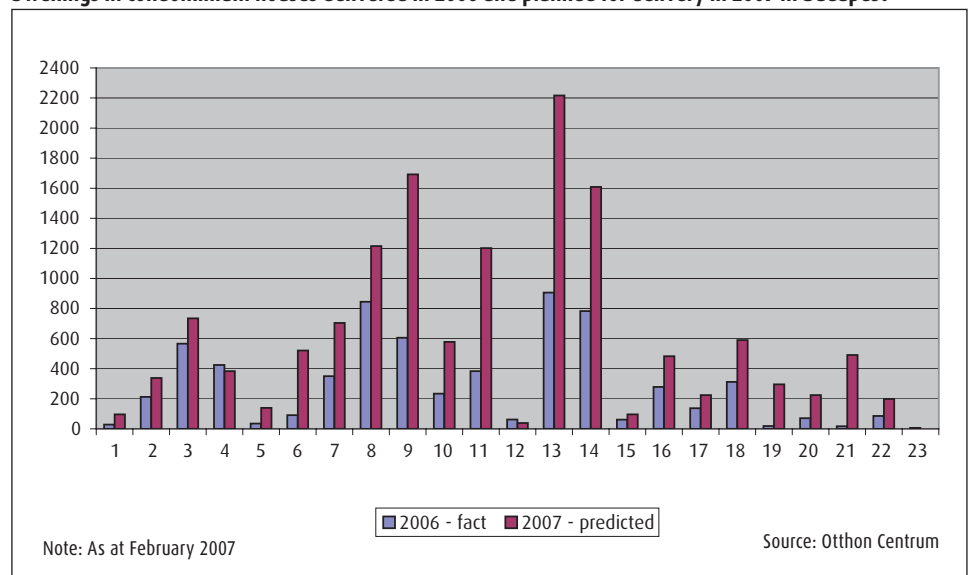
delivered than in 2006. The largest numbers of homes continue to be built in the fashionable districts (more than a thousand new homes shall be completed in districts 13, 9, 14, 8 and 11).

In addition to the persistently popular inner city areas, however, the attention of the developers turns increasingly often towards the outer districts. Recently, several conceptual projects were launched or are under preparation in the capital city (in districts 4, 8, 10, 11, 13, 14, 16) as part of the city development or district development plans. In their case, large volumes (several hundreds or thousands of homes) are always associated with some mixed function, including supply of a wider area, in addition to providing the local residents.

In a comparison with the 6,500 delivered homes in condominium houses last year, only a portion of the volume of 14,000 homes planned for this year will be actually completed. This figure comes from our survey made earlier this year and, on the basis of our experiences, the number of homes delivered by the date set in the plan may be 40-50% lower than that. A delay of a couple of months can be considered usual and, from the investor side, defensible. Developers normally specify 3-6 months in the contract for that purpose; after that period, a penalty shall be paid to the buyer for the delay.

According to our database, the absorption of the unsold homes continues. As at the end of February, 1,270 completed homes were waiting for buyers in Budapest. This figure used to be well above two thousand one and a half year ago.

Dwellings in condominium houses delivered in 2006 and planned for delivery in 2007 in Budapest



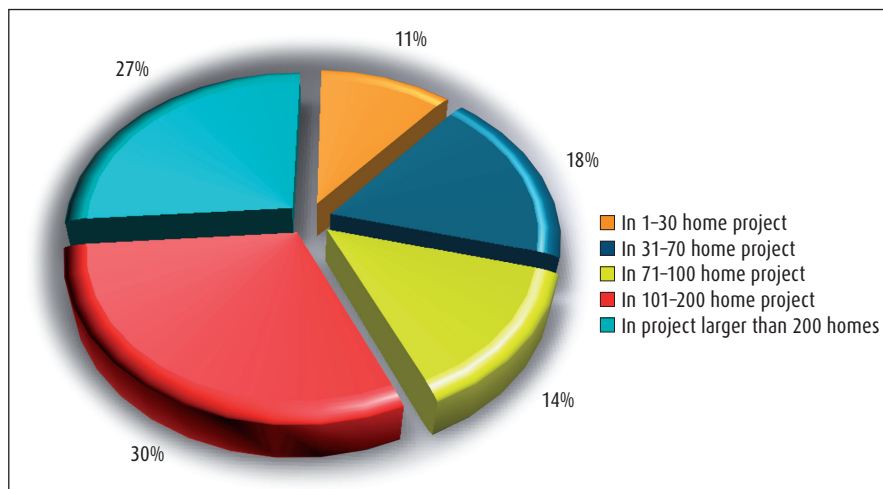
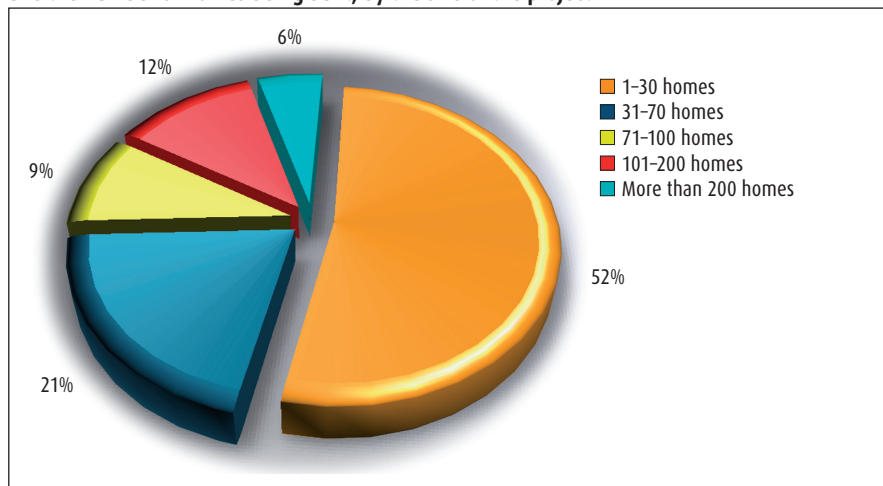
Concentration of homes per projects remains strong. While 52% of the homes available for sale are in projects with a maximum of 30 homes, 57% of the homes under construction are in projects covering one hundred or more homes. No change shall be expected in this, as according to our survey made earlier this year, following the 54 projects with more than fifty homes in 2006, this year 91 investments of this size shall be completed in Budapest.

Given the 'turnover' rates of smaller homes built at the very beginning of the decade, by now, there is an increasingly massive group of those who wish to move to larger homes, due to a larger family, while keeping the quality standards achieved. As a consequence, nowadays, in addition to the homes with one and a half or two rooms, newly built units with 1 large + 2 small rooms or 2 large + one small rooms are increasingly popular.

Many of the foreign developers start discovering the medium-size towns, which were left out from large residential projects until now. In these towns (e.g. Eger, Tata, Tatabánya) the marketable price reached only now the limit required for breakeven.

For foreign buyers, the Hungarian residential market and Budapest continue to be attractive. According to a summary prepared by the Ministry of Local Municipalities and Regional Development, in 2006,

Breakdown of the projects with ongoing sales, by the number of homes and the number of homes being built, by the size of the project



Source: Otthon Centrum
Note: As at February 2007

in Budapest, 1,863 property purchases involved foreign private individuals, and this number is stagnating since years. Within that number, the share of Irish, British and Spanish buyers is 56%. (Of course, the remark still applies that according to the estimates, there are another 2-3,000 foreigners who make purchases through companies, but this does not appear in the official statistics.) No major changes occurred

in the country-wide numbers either. Even now, out of 5,670 properties, 20% were bought by Germans. Romanian, Irish, Dutch and Austrian buyers rank after them. After Budapest, Somogy County is the most favored, followed by Bács-Kiskun.

For foreign buyers, our main attraction is that in a comparison with the developed capitals of this region (such as Prague, Warsaw or even Bratislava), prices of newly built homes are the lowest here, and Bucharest is also fast in closing the gap. Of course, from an investment point of view, we retained our price advantage in a comparison with the large cities of countries westwards from Hungary.

MARKET OF SECOND-HAND HOMES

According to a representative survey prepared by us in March-April, covering 4,000 persons in the age group from 25 to 60 years, in the last twelve months, 6% of the population purchased and 5% sold residential properties. Residents of Budapest and people in the age group 25-35 are more active in purchases. In the coming one year, the ratio of those who plan a purchase or sale (9% and 7%, respectively) is more or less equal to the ratio of those who bought or sold homes last year. In this respect as well, the Budapest residents stand out from the population (with 13% planning a purchase and 9% planning a sale) and people between 25 and 35 years of age (with 14% planning a purchase and 8% of them a sale).

With regard to the homes bought, in the countryside, the share of second-hand properties is lower (69%, against 82% in Budapest). In reality, mainly people belonging into the older age groups buy newly built homes, at the same time, a higher portion of the younger generation plans to purchase such properties.

Those who do not have confidence in an appropriate quality of newly built homes and those who would like to move immediately, a good solution could be the purchase of quasi-new homes, built in the last one and a half decade (or, in an even narrower range, in the 2000s). Demand for such property is at constant levels. Within properties sold by Otthon Centrum in the last twelve months (excluding projects explicitly built for sales) every eighth was a quasi-new dwelling or house, built between 2000 and 2005.

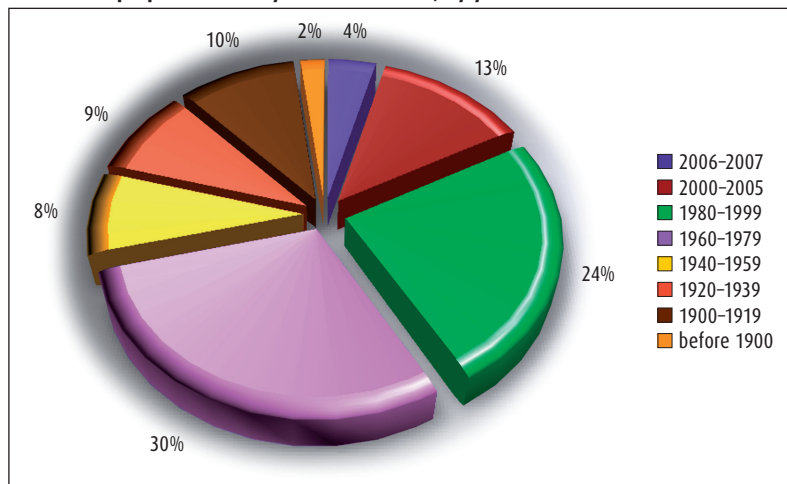
It is not unexampled that in a given, narrow area, the price of homes built in the nineties exceeds the prices of the ones under construction. However, this does not mean a decrease in residential prices, but rather factors of micro-environment play a decisive role here. (In district 9, in Middle Ferencváros, for instance, the prices of quasi-new homes built in the early stage of the rehabilitation process, in the immediate proximity of Ferenc Ring Road, can be up to 10-15% higher than the average current price of a new home, a few streets away, further from the Danube.)

Internet-based property advertisement portals are increasingly popular among those who are looking for a home and, due to the high number of page downloads, useful information can be obtained on demand. Analyzing the search statistics on ingatlan.net, the most popular districts in Budapest are 10, 13 and 8. Demand is the highest for small sized properties, below 50 sqm. In the countryside, on the contrary, in line with the existing stock, residences and houses with larger ground areas are more

popular. In terms of searches, on the basis of the data of the property portal, the top three ranges in size are at about 110 sqm, followed by 60-80 sqm.

In the case of homes bought from previous owners, due to the variety of the market, it is difficult to predict price changes. Difficult to sell, and so, probably forcing their owners to reduce prices, are: large-area residences in apartment houses built with internal courtyard and a poor location within the building; large-size prefab block flats, mainly the ones in the peripheries of the Pest side; and multi-level, 'uniform'

Residential properties sold by Otthon Centrum, by year of construction*



Source: Otthon Centrum

* Properties sold between May 1, 2006 and April 30, 2007, excluding projects built for sale.

family houses built 20-30 years ago. No significant change occurred in terms of areas and types high in demand. For investment purposes (for letting or in a speculation for a value increase), further on, homes on higher floors, in the proximity of the inner city, close to the main transport connections can be recommended, primarily the ones with two-three rooms.

Even though many predicted mass sales of residences in housing estates, when a drastic increase in community heating fees was announced early this year, on the basis of our database, no spectacular expansion can be seen on the market of prefab block flats. Within the stock of second-hand homes coming to the market, the share of block flats remained constant in the last good six months, at 15-18%. In January, the price of gas also increased substantially, but due to the introduction of gas fee compensation and the mild winter, the offer of large-size apartments did not jump up because of the maintenance costs. Nevertheless, chances for an exchange of properties without a deterioration in the quality are the smallest exactly for those, for whom the increase in heating costs represents a real problem. It is not unthinkable, at the same time that with energy savings considerations moving into the foreground, there might be a general surge in demand for newly built homes, with lower maintenance and community costs.

According to our above-mentioned survey, a little more than two-thirds of answerers from Budapest and 60% of the rural population would be ready to rely on a network of property agency, when buying or selling a residence. The main reasons for making use of such services include the wideness of the client base, expertise, speed, full-scale servicing and also the consideration that an agency will take over the administration on behalf of the clients

MARKET OF BUILDING / DEVELOPMENT PLOTS

Prices continue to rise on the market of development plots, mainly driven by the unshaken optimism of foreign investors. The most important value increase was observed in the narrower inner city of Pest again. Even though this large increase came from the calculation of an average on a few deals, we can safely speak about a trend, valid for the whole of the market segment. Typical transaction prices, after stagnation in the previous half-year, increased a little in districts 9 and 11 as well; therefore, price levels remained unchanged only in Zugló (district 14).

Types of areas that are clearly appreciating remained:

- » city centers (in addition to districts 5, 6, 7, inner 8 and 9 in Budapest, also in the case of large cities in the countryside),
- » rehabilitation areas in the proximity of the centre (Middle Ferencváros and Józsefváros),
- » both sides of the Danube, and
- » action areas for comprehensive city development programs (e.g. airport corridor, new portions of the M0 motorway annulus).

Typical prices of plots suitable for condominium development

Area	Net plot price projected on net saleable sqm of residential area (HUF)	Price trend in a comparison to the previous half-year
Inner portions of Districts 1, 2 and 12	150-200,000	↑
Districts 6 and 7, within the limits of Nagykörút	160-250,000	↑↑↑
Districts 6 and 7, outside the limits of Nagykörút	80-140,000	↑↑
Former brownfield zone of District 11	40-50,000	↑
Rehabilitation area in District 9	50-60,000	↑
The Angyalföld portion of District 13	45-60,000	↑
District 14	40-80,000	-
Rehabilitation area in District 8	40-80,000	↑
District 10	25-35,000	↑

Source: Otthon Centrum

In the mid-term, the areas along the planned Körvasút sor, in a brown-field environment, have the same potential. As opposed to that, in spite of some increase in the interest from developers, in the agglomeration area, a stagnation of the land market can be predicted. In the areas with family houses, in general, a decrease in the size of plots could bring some revival of the demand.

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



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