

In spite of the fluctuations in the turnover, a measurable decrease since last year in demand for housing loans and an increasing cautiousness of buyers and investors (or: partially because of these!), there are several signs to show that the housing market is facing a revival again. Also, the initiatives for changes in the tax law to be passed this autumn are not likely to have a significant effect on the market as a whole.

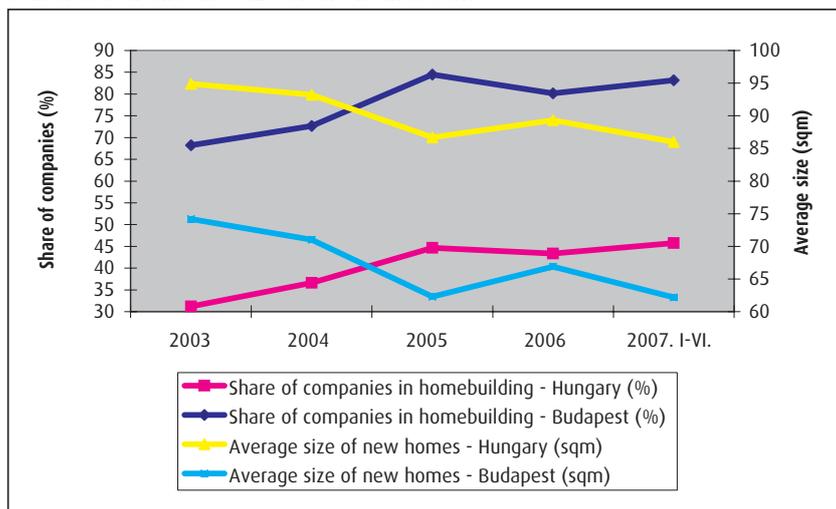
### CONSTRUCTION VOLUME

According to data of the Central Statistical Office (KSH), in the first half of 2007, occupancy permits were granted to 13,200 homes and, nationwide, construction permits were issued for 21,100 new homes. To the figures of one year ago, this represents an increase of 1.6% and 6.6%, respectively. An above-average expansion occurred in the capital city, where the number of new homes occupied (4,059) was 12% higher and the number of new applications for permits (5,884) was 14% higher than in the first half of 2006.

As to the form of construction, an above-average (6%) increase was observed in the number of new homes built by entrepreneurs and the ones built for sale. So, in Budapest, the share of investors in construction is 83%, for the whole of the country, 46%. In accordance with that, another reduction took place in the average ground area of the homes built, to 62 sqm in Budapest, 86 sqm for the country, as a whole.

The development of the number of newly occupied homes shows a strong differentiation, by county: in one half of the country, there was a significant increase (9-52%), while in the other half, a drop (of 7-47%) was observed. The most important increase was experienced in Veszprém county, while reduction was the most important in Bács-Kiskun county.

### Connection between the share of entrepreneurial home construction and the size of the homes built



### HOUSING POLICY, BANK FINANCING

This autumn, several amendments were initiated in the taxation law – changes that potentially have an effect on the housing market. According to these:

- » Upon purchase of residential property, the home acquisition allowance (that is, the tax allowance for the amount invested into a new home, out of the proceeds from a sold home) would be eliminated.
- » Income from the sale of a home would become taxable in the case of its sale within five years (at present, this term is 15 years), but this tax could be reduced or even remitted by the authority, on an equitable basis.
- » Land and buildings shall be taxed by local municipalities, from 2009, on the basis of computed values. The extent of tax would be not more than 0.5% in the case of homes and the related plots, with a maximum of 1.5 per cent for other properties. The introduction of the tax, its size, any exemptions and allowances shall be determined by the local municipalities, in their own competence.
- » On residential property and holiday homes with a computed value exceeding 100 million forints, companies should also pay a tax (for the portion above 100 million forints), that is, the luxury tax already applicable to private individuals would be extended.
- » A plot built-in within four years would be exempt from duties only if the built-in portion is at least half of the extent prescribed locally.
- » Private individuals shall also pay VAT, if they sell, for a fourth time within two calendar years, a plot or a new property that is less than two years old. (According to the original plans, VAT was to be charged on all plots and new homes above 15 million forints, independently from the frequency of sales, but this statement was not included in the finalised draft bill.)
- » The duty offices shall provide information on property transaction free of charge for courts, local government and other official bodies, besides, to credit institutions and companies active in property trade the same information shall be made available against a fee.

For the time being, the effect of the planned property tax, due to a postponement of its introduction and because the concept is not yet finalised, cannot be felt in demand. In addition, it is also difficult to predict the consequences of the other suggested changes, while these include both measures stimulating turnover and measures that throw it back.

According to a recent report of DEM Information and Economic Research Bureau, in the first seven months of 2007 the typical trend was, on the one hand, a decline on the whole in the average size of subsidized housing loans (for new homes 5.4, for second-hand ones 2.2 million forints), on the other hand, an overall average of 5.6 million HUF is the result of a continuous increase in market-based (mostly

currency) loans, representing a large portion of the demand. Until the end of July, a total of almost 60,000 loan contracts were signed for housing purposes, to a total value of 286 billion HUF. Overall, this year, demand for housing loans lags behind the level of last year.

In reaction to the signs of a slackening appetite for home purchases and refurbishments, banks started stronger loan campaigns. An outstanding scheme is a yen loan, available from OTP Bank, where the interest rates are the lowest in the developed world, though it is coupled with the highest fluctuations in exchange rates. Allianz Bank offers, in certain cases, a loan amounting to 110% of the home's collateral value, while BG Mortgage & Leasing came to the market with a mortgage loan of 40 years to maturity. In addition, in a wide range, the initial one-off costs are remitted.

This year, according to the expectations of market players, the home lease segment could represent a volume of 25 billion forints, which would be the double of the financing level in the year 2006. Within property leases, there is a further increase in financing residential property, this figure standing at 17 per cent at the end of the first half of the year. This forecasts a further expansion of companies dealing with home leasing on the market of housing finance.

## MARKET OF THE NEWLY BUILT HOMES

This year, the prices of new homes in Budapest increased by 5-7%, on the whole, but increases of 10-15% were not unprecedented, either. At the same time, the average increase is not in line with the 8-9% increase in the investors' costs. All this means that those who buy for investment purposes will be clearly better off, if they make a proper selection of the housing project. Price changes of newly built homes largely depend on the stage of the investment. As a general rule, we can state that all throughout the lifecycle of a project, the unit price of the homes continuously rises. At the same time, even though the vendibility of the immediately available homes is high, by the end of a project only the less popular types of dwellings or the ones with a poor layout are left over, and the investor can sell these often only at a discount or with some payment relief.

The table attached shows the average prices per square meter of the newly built homes in condominium houses sold by the Otthon Centrum network in the year 2007, in a few areas. The price levels in cities of the countryside are about 10-15% below the lower category of the mass market in Budapest.

Similarly to the attitude of buyers, cautiousness, watchfulness of investors is also increasing. There are less and less plots with really good characteristics, suitable for the construction of condominium houses, therefore, competition is strong for their acquisition, and that pushes prices upwards on the land market. The new residential projects come to the market in an increasingly attractive outfit, with increasingly innovative marketing work. Parallel to that, the quality of the homes is also improving. Today, it is no longer sufficient to offer a choice from a number of tiles. At the same time, extra performance in the field of architectural and internal design solutions can be a success factor on its own in the sales of a project. Projects with mixed functions (offering, in addition to dwellings, also possibilities for shopping, sports, entertainment) are on the grow.

As compared to the last one or two years, there is no significant change in the popularity of locations and home types. Beloved types of homes are the ones with 1 large + 2 small, 2 large, 2 large + 1

## Average transaction value of newly built condominium homes in some districts of the capital city and in cities of the countryside

	Home price (thHUF/sqm)
II.	645
III.	386
VI.	458
VIII.	338
IX.	358
X.	284
XI.	420
XIII.	363
XIV.	346
XVIII.	300
XXI.	265
Győr	225
Nyíregyháza	222
Sopron	245
Szeged	220
Zalaegerszeg	226

Source: Otthon Centrum

small rooms, with 50-60 sqm. The hit districts remained the Districts XIII, XI, VIII, III and IX, at the same time, price-sensitive buyers can select from a series of homes in new investments in District X.

Even though price sensitivity indisputably is the most important decision-making factor for the purchase of newly built homes, in view of the success of investments, in the period of their selling, an increasing role is attributed to the optimal planning of the building and of the homes. In accordance with that, during the summer, new suggestions – not yet approved – were formulated about an amendment of the construction rules in effect.

This means that it shall become mandatory to ensure at least one sunny room in each dwelling, that is, on a February 15, the sun shall shine through the window for at least 60 minutes. In each home with more than two rooms, a separate WC will be required, even if there is already one in the bathroom. In each home, one of the living rooms shall have a ground area of at least 17 square meters, but in the case of flats supplied with an American kitchen, the area of the kitchen and of the dining area shall be excluded from the calculation.

Air-condition equipment can be installed only in a covered form, in harmony with the external appearance of the building. Furthermore, an important innovation is that in the case of investments where at least six homes are built on the same plot, garages shall be located within the building, in any case.

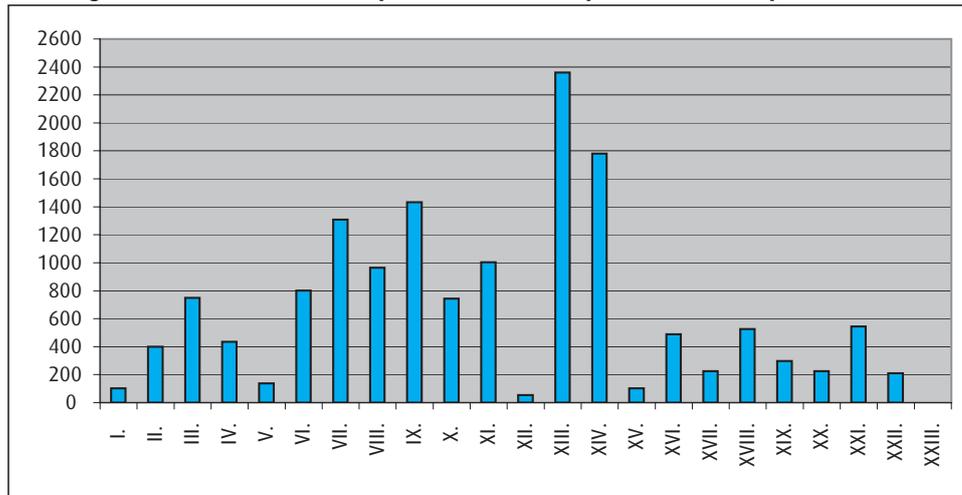
According to the plans of the competent ministry, the new regulation shall be applicable to new constructions started in Hungary after January 1 of next year, and this is expected to lead to the elimination of the present stock of homes, typical at present, split into small rooms, with a poor layout. At the same time, due to the increasing size and additional costs, the measure may imply a price increase.

When we updated our database in September 2007, many projects, previously not known in detail, were processed. This is why, in spite of the fact that in the last six months, the ratio of the investments where the completion date changed to 2008 was about 40%, no change occurred in a comparison with our summary prepared at the

beginning of the year, according to which more than 14,000 homes shall be completed in new condominium houses in Budapest during this year. Still, this is only a plan. It is more likely that only about half of these will be completed.

HUF are the highest in demand among young people, while in the countryside university cities (Győr, Pécs, Sopron, Szeged, Veszprém), properties in the range of 8-9 million HUF are the most favoured ones. Required size also shows similarities with the property market differences between the capital city and the countryside; in Budapest, the most popular properties are those of about 40 sqm, while in the country, a size of 50 sqm ranks first.

### Dwellings in condominium houses planned for delivery in 2007 in Budapest



Source: Otthon Centrum

Note: as at September 2007

In a comparison with last year, with the exception of Districts XII and XXIII, homebuilding activity is increasing everywhere. A percentage change might be misleading in such cases, because in Districts XIX and XXI, for instance, the completion of one or two larger developments results in an increase of several hundred times, but this means, even so, only a few hundreds of homes. What is more interesting is that the increase in the number of homes shall be, on the basis of deliveries announced, more than 1400 in District XIII, almost one thousand in Districts VII and XIV, and also in Districts VI, IX, X, XI and in District XXI, already mentioned, this figure can be expected to exceed 500.

### MARKET OF SECOND-HAND HOMES

After a start of the year with a performance above the expectations, a stronger decline followed in the spring and stagnation in the summer on the residential market. Whilst an explanation for the development in spring can be that this is when people became actually aware of the effects of the economic austerity measures, the moderate turnover in the summer is attributable to general seasonality and the unusually hot weather. At the level of enquiries and registrations, demand remained stable; the drop was manifested in the number of actual transactions. Also, the revival at the end of the summer, in September fits into the turnover fluctuations observed since years, due mainly to the start of the school year at the universities and colleges.

The view is spreading that rather than paying for a sublease, it makes more sense to buy a residence for students. In our database, we examined on a sample of six hundred persons the kind of homes people in the age group of students, 18-25 years old, are looking for in Budapest and in the cities with universities in the countryside. In Budapest, properties at about 11 million

The attached table shows the average rentals for condominium houses offered in Budapest and in some of the countryside university cities. It is important to note that looking at the most frequently occurring rentals, we would state a much smaller difference between the capital city and the other cities. The Budapest average is higher because of the numerous downtown residences of high value.

In a wrap-up on the students' attitude to finding a sublease we can say that

they are looking for inexpensive sublets, at prices below average, and many times a number of them rent a dwelling together, mostly with furniture. The decision is made quickly, due to the short time allowed for the search. In selecting a sublease, in addition to price, the proximity of the school and good transport connection play a key role, quality is less emphasised.

On the whole, an expansion of some sort of 'property attitude' can be observed among homebuyers. When making the purchase, the criteria are more and more the value stability of the picked apartment / house, the maintenance costs, its future 'marketability'. Homebuyers nowadays are far more watchful, they dedicate more time to investigate the market. According to a survey of Otthon Centrum, involving 4,000 persons and representative at the country level, 87% of the home seekers use the internet to obtain information, to overview the supply, and 80% of them use printed press. Among those who intend to sell their property, the share of printed and internet-based media is the same, 82%.

### Average rentals in Budapest and some cities in the countryside

	Avg. rental/sqm/month	Avg. monthly rental of a residence of 45 sqm
Budapest	1,950 HUF	88,000 HUF
Debrecen	1,050 HUF	47,000 HUF
Győr	1,100 HUF	50,000 HUF
Pécs	1,300 HUF	59,000 HUF
Szeged	1,150 HUF	52,000 HUF
Veszprém	1,175 HUF	53,000 HUF

Source: Ingatlan.net

The above-mentioned draft bill, according to which data recorded at the duty offices shall get more publicity, may get the market of second-hand homes moving. An important hindrance for an increase in the number of transactions nowadays is the overpriced character of the homes, where the reason is that the owners are under informed about market conditions. In a study performed this summer, on the basis of 2,500 transactions, we were looking for an average size of the price bargains. On the basis of an arithmetical average for the

whole of the database, this shall be in the range between 5% and 6%. The more unique a property is (in terms of price, type or location), the wider is the scope for bargaining. It is important to note that these data comprise apartments and houses sold through property traders, and it can be assumed that in transactions between private individuals – due to deficiencies of market knowledge – rebates are even more important.

Prefab block flats are not necessarily the scapegoat of the residential market. The ones with renewed insulation, energy-saving outfit and, most importantly, with own meters, may mean a good solution in many life situations. The price of such homes, with a good layout, may match quite often with prices of brick-built homes built earlier in the neighbourhood. Properties in refurbished buildings can find a buyer, perhaps not at higher prices, but faster.

### MARKET OF BUILDING / DEVELOPMENT PLOTS

Prices of plots suitable for the building of condominium houses continue to increase. In the development areas of Districts IX and XI, after a slow increase last year, the price increase was 20-35%. The other extremity is represented by the external portion of Districts VI and VII, as well as District X, where the change is not more than 7-10%. Among capital-rich – almost exclusively foreign – companies, on the Pest side, the inner portion, demarcated by Nagykörút remained the most popular, and there was some increase in the activity in the similar, central parts of the Buda side as well. Hungarian companies unable to pay the price for downtown plots either change their profile or they start construction in less frequented areas. For foreign developers, a clear competitive advantage is that through foreign sales channels, they can sell their downtown homes at higher prices.

Office and hotel development projects in the inner city often promise better business opportunities than residential projects do. Several companies started to diversify their activities on this basis. In addition, it became frequent that for the same plot in the inner city, both companies specialising in residential development and companies focusing on commercial properties are competing.

An increasingly important competition comes from the Romanian and Bulgarian markets. Spanish investors, for instance, became more careful. They take into consideration that instead of an investment here, they can set foot in Romania, where yields are higher, but due to a high level of bureaucracy and lacking regulation, risks are also higher. An increased activity is observed on the land market, with British, German, Austrian and Italian companies. At the same time, the typical market behaviour remained 'land banking', that is, the purchase of building plots or buildings to be demolished, available still in sufficient quantities, as a long-term investment, and this shows an unbroken confidence in the Hungarian market.

In addition to interest in Budapest, there is a spectacular increase in the interest of foreign investors for the agglomeration zone around the capital city, as well as for the larger cities in the countryside and the Lake Balaton. Here, following the steps of the pioneering Israeli companies, newly the Spaniards can be considered active.

The draft bill mentioned above (according to which private individuals should pay VAT, if the frequency of plot purchases reaches a certain level) shall not have a major impact on the land market. Firstly, it is targeted at a narrow stratum: those who participated in many transactions in order to avoid taxation or did so for speculative purposes, and second, the restrictions are already much softer than it was initially planned.

### 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	160-220,000	↑↑
Districts 6 and 7, within the limits of Nagykörút	180-260,000	↑↑
Districts 6 and 7, outside the limits of Nagykörút	80-150,000	↑
Former brownfield zone of District 11	50-70,000	↑↑↑
Rehabilitation area in District 9	60-80,000	↑↑↑
The Angyalföld portion of District 13	50-65,000	↑↑
District 14	45-90,000	↑↑
Rehabilitation area in District 8	45-90,000	↑↑
District 10	25-40,000	↑

Source: Otthon Centrum

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

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