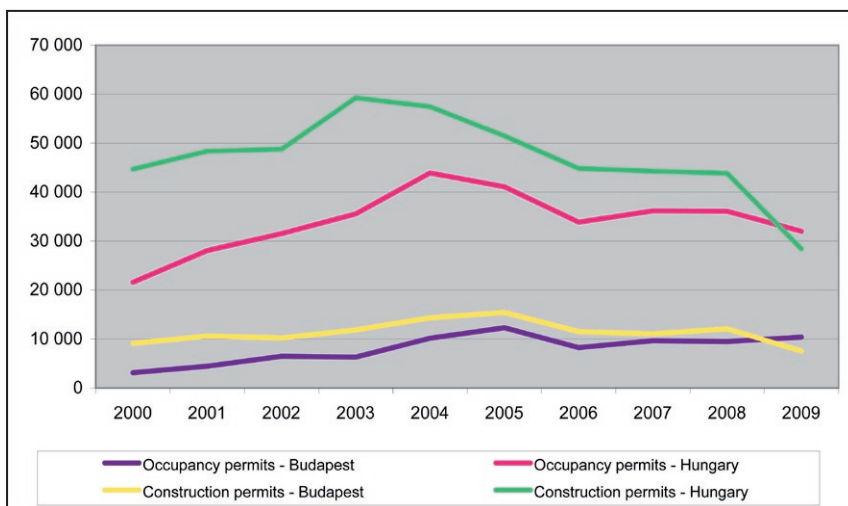


Record volume of unsold housing stock on the Budapest market of new homes, prices shifting from reduction to stagnation, stricter lending terms, and a minimal expansion in turnover, due to lowered duty levels. According to our optimistic forecast, the crisis bottomed out in 2009, therefore, this year already, favourable developments can be expected on the housing market.

CONSTRUCTION VOLUME

According to data of the Central Statistical Office, in 2009, occupancy permits were granted to 32 thousand homes and, nationwide, construction permits were issued for 28,400 new homes. The number of newly occupied homes is 11% more, the number of new permits is 35% less than in 2008. The drop was more remarkable than that in the second half of the year: the number of newly occupied homes represented three quarters of the figure for the second half of 2008, the number of new permits was somewhat more than half of that figure. The increase in the number of newly occupied homes in Budapest, from 9,477 to 10,385, is opposite to the countrywide trends, and it is attributable to the momentum gathered prior to the crisis. Data for last year are exceptional in the sense that the number of construction permits lags behind the number of occupancy permits, both for the whole of the country and for Budapest.

Number of construction and occupancy permits, annually



Source: Central Statistical Office

When examining the territorial breakdown of new constructions, it can be observed that the role of the capital city continued to strengthen, accounting for one third of national housing constructions. In addition to Budapest, the number of newly occupied homes increased in the counties Baranya, Csongrád and Somogy, whilst an above-average drop occurred in all counties except for the counties Fejér, Komárom-Esztergom and Győr-Moson-Sopron.

The number of new housing construction permits decreased in all counties, but to different extents. In Budapest, the decrease was somewhat more than

the national average, with 38%, and therefore, in a comparison with 12,084 permits in 2008, last year only 7,537 permits were issued. In the counties Fejér and Heves, the drop was even more than 50%, whilst the county Bács-Kiskun represents the other extremity, with a decrease of merely 8%.

Countrywide, the share of homes built by entrepreneurs increased from 47 to 51%. That is, the decrease in the number of newly occupied homes can be observed primarily in construction by the population; in that segment, the number of homes built decreased by one-fifth, while in entrepreneurial construction activities, only a 3% decrease occurred. At the same time, in Budapest, the share of entrepreneurs decreased from 81% to 80%. A proof of a close relationship between the identity of the builder and the size of the homes is that the average ground area of the homes built changed accordingly: while for the whole of the country, a minimal decrease (to 89 sqm), in Budapest, a minimal increase (to 67 sqm) took place.

HOUSING POLICY, BANK FINANCING

Last year clearly was about a central regulation of the lending market; among a series of measures, those aimed at helping housing loan debtors in a difficult situation were in foreground, arm-in-arm with a regularization of the operation of credit institutions. The effect of a subsidised forint loan facility, launched in October for new homes and providing support in a narrower scope than earlier, remained minimal until now, primarily because of the high requirement of own equity. An indication of cautiousness of the borrowers is that, according to internal data of Otthon Centrum's credit centre (OCHC), the average amount of mortgage loans applied for decreased by almost HUF 2 million on average, in respect of purchase of homes.

This year, from the point of view of lending, the most important event may be the introduction of a first phase of Government Regulation No. 361/2009, entered into force in the 1st of March, implying significant stiffening in the terms of residential lending and the assessment of creditworthiness. Accordingly, in the case of forint loans, the loan-to-value ratio shall not exceed 75 percent, that is, in a comparison with the property's collateral value, the amount of the loan

can reach only that limit. In the case of Euro-based borrowings, the same value is 60 per cent, and for all other currency loans, this indicator is 45 per cent. For leases, that limit is 5 percentage points higher, in each case. Another important date will be the 11th of June; this is the deadline for financial institutions to prepare their internal regulations, where the requirements relating to credit assessments, any limits for creditworthiness and income items by loan types, together with their certification shall be laid down in detail, as well as techniques for taking account of existing loans of the person applying for the loan. From that date, the banks are allowed to extend loans only after a credit assessment.

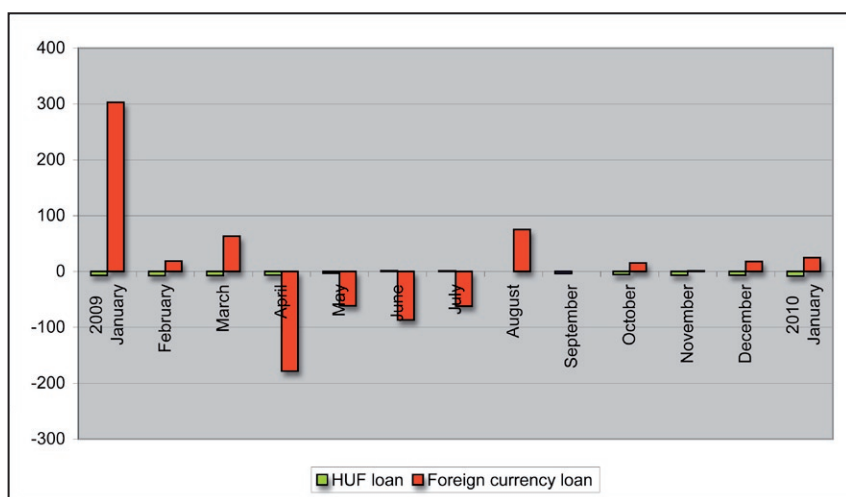
With this tightening, persons without income, employed without properly reported income or people with very low official income (due to their part-time employment or incomplete reporting by their employer) are basically eliminated from the scope of creditworthiness. Likewise, people who live in small villages ranking high on the increasingly strict risk list of banks. Even if it is not explicitly stated by a bank that inhabitants of a particular town or village are not creditable, the determination of the minimum value of properties available for cover may have such implications. This is why we expect that this year, demand shall grow for smaller-area and cheaper homes, at the same time, the credit tightening shall not bring about a drastic drop in demand, as cash buyers are still present in large numbers and, in addition, retail customers became more cautious about borrowing.

Creditworthy people have more possibilities to increase the size of loans, because they are in a position to be granted, above the loan-to-value ratio specified in the law, a personal loan as well, and recoup the loan amount necessary for the property acquisition. Another possibility may be to get an additional property collateral involved.

In the case of loan redemption, banks offer credit schemes with more favourable terms to their reliable customers who pay on time; a special provision is that if the loan amount to be redeemed does not increase and no currency conversion takes place, the loan-to-value ratios are not required for use.

Parallel to a general credit tightening, another outcome of the economic crisis is the shift in housing loans by currencies. In the second half of last year, demand for forint loans picked up again, following the emergence of attractive schemes with permanently decreasing interest rates in the product pattern of an increasing number of banks. In the same manner, by now, each of the large banks offer Euro-based mortgage loans, and the interest rates of these are coming closer to the level observed for the Swiss franc. According to OCHC, the historical low of the central bank's base rate shall further support an expansion in HUF loans, and it is expected that more and more banks and financial institutions will present favourable forint loans in their offer, with an advantageous competitive situation for borrowers.

Monthly changes in the stock of retail residential loans (HUF bln)



Source: National Bank of Hungary
 Note: Currency loans, recorded in HUF

One of the regrettable consequences of this past period is an increase in the number of problematic customers. At the end of last year, almost eight hundred thousand bad debtors were registered in the Central Credit Information System. While in previous years, this blacklist expanded by about one hundred thousand persons, last year, under the impact of the

crisis, 170,000 new names were added. Debtors have a total of 1.4 million recorded loans, out of which 350,000 were already repaid. From data published by the Hungarian Financial Supervisory Authority, late payments occurred in 2009 in respect of thirty per cent of all retail loan contracts of the banks, with twelve per cent of these showing a debt outstanding since more than 90 days. The only encouraging sign is that in the second half of the year, the share of bad debts did not increase as fast as in the first half of the year.

Perhaps partially as a result of this, according our forecast, tightening in retail lending shall stop before the end of the year, and even some easing can be expected. Encouraging signs for a pick-up of lending are already visible; several banks make plans to boost their lending activities. However, an actually positive shift can be expected in the second half of 2010, at the earliest. But after a minimal expansion this year, a more substantial increase shall follow, according to our expectations. The market shall remain a bipolar one; with banks carrying to apply active, in some cases marked lending policies and with banks holding back loan allocations and focusing rather on maintaining their portfolios.

An interesting turn this year may be a spreading of loan redemptions. For customers who redeem their loans in due time and at regular intervals, banks might develop different offers, in order to allow them getting loan schemes with more favourable terms. In the West, a widespread phenomenon is that banks allocate not only new housing loans, but they also manage loans already in the market, by offering favourable schemes to borrowers considered sufficiently safe to be lured from other banks. In this particular case, both parties are better off: the customer can go on with the existing loan's repayment at more favourable terms and the bank acquires a new customer. Still, in order to let expand this, the introduction of the positive debtor list would be needed, as soon as possible, to make available a list of reliable customers.

MARKET OF THE NEWLY BUILT HOMES

As the most important impact of the crisis within the housing market was its effect on the market of new homes, it is not surprising that in the second half of 2009, market absorption, i.e. the number of sold homes was at a low not seen for years in the capital city. From last July to December, ten times less homes changed owners than in the period 2005-2006, and even the figure for one year earlier, the second half of 2008, was seven times larger.

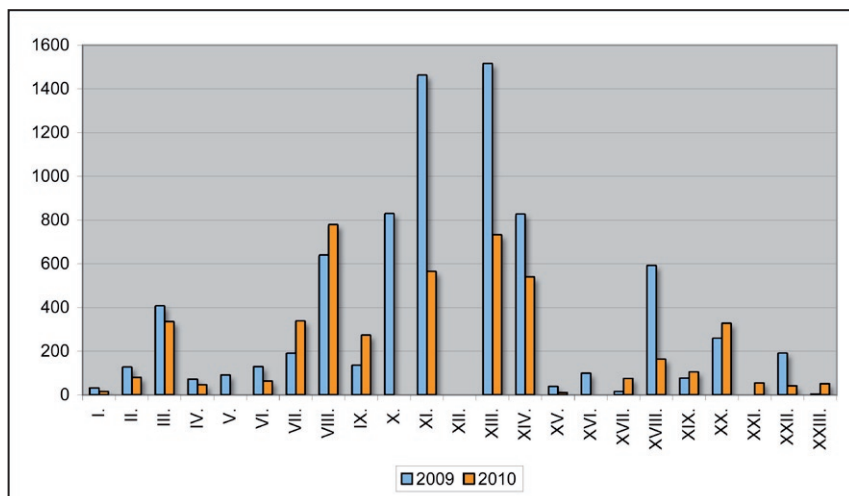
For the whole of the year, only slightly more than 1,600 newly built homes were sold in the capital city in 2009. Most of them, more than 200 homes were sold in Districts XI, X and XIV, whilst the traditionally popular Districts VIII, IX and XIII ranked lower, partially due to the squeezing supply. It was last year for the first time that many of the pre-crisis buyers withdrew from the purchase, modifying by the same the balance of absorption. Therefore, there

are several projects where in 2009 the selection of homes was wider than a year earlier.

Whilst the number of new homes sold must have been a negative record of the decade, delivered stock, that is, the number of unsold homes in completed projects exceeded three thousands for the first time ever, and represented about 3,800 at the end of 2009. An even better indication on

the market situation is provided if we take into consideration that within projects under construction, almost 3,000 homes are waiting for their buyers. At present, therefore, those who wish to move to a new home, have a choice from among 6,800 homes

Number of condominium homes delivered in 2009 and planned for delivery in 2010 in Budapest districts



Source: Otthon Centrum; on the basis of data provided by investors and distributors
 Note: According to a survey in January 2010

The reason thereof is that, as opposed to sales, the number of homes built did not drop, and investors' momentum was kept, that is, constructions already started are mostly completed, in spite of the reducing demand. But a major drop shall be expected this year, with the number of homes coming to the market possibly halved, and a potential start of parallel absorption of the unsold stock.

Already this year, the delivered stock of homes may top out at about 4,500 in Budapest. It makes sense for buyers to have a look at the market now, because with the reduction of the duty and investor campaigns, allowances applied in a wide range, there is no plausible reason for postponing a purchase. With demand dropping to levels of previous years, unsold stocks might get absorbed within six months-one year in certain districts. And in newly launched projects, home purchases will take place at definitively higher prices, as investment costs and financing costs also increased, and banks will demand from developers substantially more own funds than earlier, implying that these will forward the higher capital costs in their prices.

Solutions for enticing buyers, applied by investors (e.g. garage at half price, kitchen furniture or plasma TV included in the price) are not always sufficient to reach the stimulus threshold of buyers of new homes; the main problem is that potential buyers do not dare or they are unable to borrow. Therefore, more and more developers present now sales stimulation methods, to offset the current difficulties with borrowing.

One of these is the scheme applied in an increasingly wide range, according to which the buyer can move into the home as soon as 15-20% of the price was paid and a preliminary contract for optional purchase was signed. The remainder of the price shall be redeemed in the following one-two years, where the monthly fee is determined in a way to ensure that the amount shall be lower than the monthly installments due under the 'notional' loan. We can become owners after the conclusion of a closing agreement, when the respective period specified in the preliminary contract expired, with the payment of the full price of our home. The possibility of an imputation of monthly installments paid earlier into the price of the home

depends on the investor. If the buyer withdraws from the contract in one or two years, the deposit money is of course lost.

That is, with small financial burden at present, we have access to a home that we would not be able to buy otherwise. In addition, this scheme holds several advantages for the buyers: it is sufficient to borrow in one or two years from now, at expectedly more advantageous conditions than at present; the stamp-duty shall be paid only after the closing agreement; and, if they wish to move urgently, but their previous home could not be sold, with this solution they obtain an extension to have enough time for finding a buyer thereof.

MARKET OF SECOND-HAND HOMES

On the whole, developments in prices depend on changes in demand, and accordingly, a downward trend started on the residential market from the second half of 2009. (In the case of block of flats, this could be seen all over last year.) This year, according to January data, this decrease seems to have come to a halt, but at any rate, there is a

slowdown. An exception thereof is block of flats, where prices kept falling even this January, in a comparison with the previous year. For the whole of 2010, we expect stagnation in prices, but forced sales did not start until now en masse, and if this happens, it could result in a decreasing trend on the market again.

Average transaction prices by the different categories (thHUF/sqm)

	January 2009	January 2010
Budapest, block of flat	188	178
Budapest, brick flat	316	333
Budapest, detached house	192	244
Countryside, block of flat	151	128
Countryside, brick flat	199	197
Countryside, detached house	142	169

Source: Otthon Centrum

According to our experiences, the news about the planned property tax did not have a material impact on demand last year, therefore, the decision of the Constitutional Court in January 2010 about the nullifying of the portion of the property tax regarding real estate, did not produce a spectacular effect on the market. On the other hand, a positive change can be observed, as a result of the reduction of stamp-duties with effect from the 1st of January. In a comparison with last December (and also with January of last year) we can report about an expanding turnover, and the increase in the number of transactions continued in February as well.

In our opinion, the residential market reached its low in 2009, and after a 30-40% drop last year, we expect - optimistically - a minimal expansion of about 5%. The willingness to buy homes may start strengthening from the second half of 2010, but a property market situation like the one in 2008 can be re-established by mid-2011, at the earliest.

For property agents, a further cleaning of the market, for buyers, safety is provided by the fact that entities involved in these activities shall get registered by the 25th of May, 2010, and those who start their operations after the regulation's entering into force in last November, can start their activities only subsequent to complying with the provisions. At service providers, the competent notary will check, at least once a year,

any changes that occurred in data required for the continuation of their activities. Public data of the records will be available to everybody, that is, clients will be in a position to check entrepreneurs.

MARKET OF CONSTRUCTION/ DEVELOPMENT PLOTS

The comatose market of development plots persists, demand is rather minimal. Due to an expansion in the number of unsold homes and in unoccupied office space, as well as a drop in the hotel industry and retail trade, the effect that could bring a material change in this situation is still missing. Another fact that amplifies this situation is a project financing stop in effect at the majority of the banks.

Two types of buyers are present on the market, to a certain extent:

- Smaller, almost exclusively Hungarian developers who are on the market since a long time and who finance constructions from their own funds or staged payments from buyers. Naturally, this puts limitations on the size of the projects; these companies are looking for smaller plots for their projects, typically in the high-medium or premium categories.
- Larger investors, who buy plots for long-term development purposes (land banking). One shall not forget, however, that investors decisive for the market hold a significant portfolio, and on the one hand, from among them, only those can be considered as buyers who have already sold their previous development projects, making use of the investment boom prior to the crisis.

In a comparison with previous years, when plots purchased for own use represented only a small portion of the market, nowadays, due to a dramatic reduction in development plot acquisitions, end-users make the bulk of demand.

The market situation makes still difficult to determine the actual plot values. In certain areas (such as the 'mass market'), there is no sale and purchase, therefore, there is nothing to compare price changes to. In these areas, 40-50% of the pre-crisis prices can only generate some interest from buyers.

Typical prices of plots suitable for condominium development in Budapest

Area	Net plot price projected on net saleable sqm of residential area (HUF)	Price trend in a comparison to the previous year
Inner portions of Districts I, II and XII	80-140.000	↓↓↓
Districts VI and VII, within the limits of Nagykörút	80-100.000	↓↓
Districts VI and VII, outside the limits of Nagykörút*	50-70.000	↓↓↓
Former brownfield zone of district XI	25-40.000	↓
Rehabilitation area of District IX	40-50.000	↓
The Angyalföld portion of District XIII	30-40.000	↓↓
District XIV	35-60.000	↓↓
Rehabilitation area of District VIII	15-40.000	↓
District X	10-15.000	↓↓

Source: Otthon Centrum

*Excluding Andrásy út

A portion of owners are keep sitting out with their sale, in an effort to avoid an impairment to be realised now. This market behaviour, however, is based on fiction in the sense that we cannot know what shall be the price level where the market gets stabilised and when a shift upwards can be expected. A fact is that if we compare the stock of plots intended for sale with the demand potential, we would have to state an immense imbalance, in favour of supply.

It can be seen, at any rate that even now, from a wide supply, the number of properties with superior locations is still finite, and development properties are available, at seemingly appropriate prices, at locations where it was almost impossible to buy without relational capital during the last 6-8 years.

As to the future, an encouraging sign is that the reduction of GDP was stopped, the position of the finances seems to be stabilising, and in Western Europe, a revival started on investment property markets. From the financing side, the good news is a reduction in the interest rates of forint loans, and on the lending side, a cautious expansion of the banks can be observed – without affecting project loans, for the time being. Market players have great expectations about an at least partial resuscitation of the housing subsidy system after the elections. (Within that, the market effect would come from providing stimulation to purchases, whilst a subsidy to rentals would not get the market moving to the necessary extent.)

Due to all of the above, demand for development plots may increase from the middle of this year, but this shall occur in a differentiated manner. First, the market of inner Buda may liven up, together with the medium-sized residential plots of areas in appreciation (such as the rehabilitation area of District IX, the areas in District XIII from Béke tér to the inner city or the central portion of District XI). At the same time, due to the cautiousness of developers and banks, the bulk of demand may be focused on projects with 5-20 homes in the premium category, and 50-100 homes in the high-medium category.

By the way, it appears likely to us that together with a livening up of the market, demand will absorb the areas with particularly good locations for hotel and office development as well (such as the inner portion of downtown Pest, within the limits of Nagykörút). At the same time, required sizes will be reduced here as well, and it will prove difficult to sell in one the plots with a development potential in excess of 50-100,000 sqm. Demand for real estate with dimensions that have an impact on city development may become significant only after a recovery of the property market, which may occur around 2011-2012.

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



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