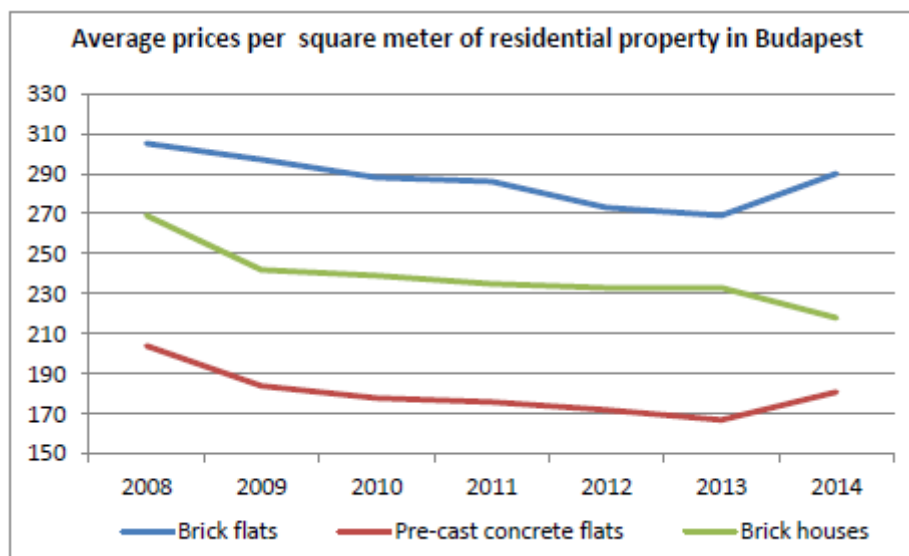




## Positive trend reversal on Hungary's real estate market in 2014

During the years following 2008, the average price per square meter of real estates had been gradually falling, but since a positive U-turn in 2014 demand has been rising on the Hungarian market, both in the commercial and residential segments. The Family Housing Grant scheme to be launched in 2015 will add further impetus to the rebound on the real estate market.

With regard to residential property, the most dynamic growth was recorded in Budapest, where – in comparison to 2013 – prices per square meter have increased by several tens of thousands of forints last year. In 2014, prices in the two main categories of residential properties, properties of brick and pre-cast concrete, have neared pre-crisis levels. In the category of brick houses (detached, semi-detached and terraced), however, there is no sign of demand growth and thus prices in Budapest are still below those of 2008.



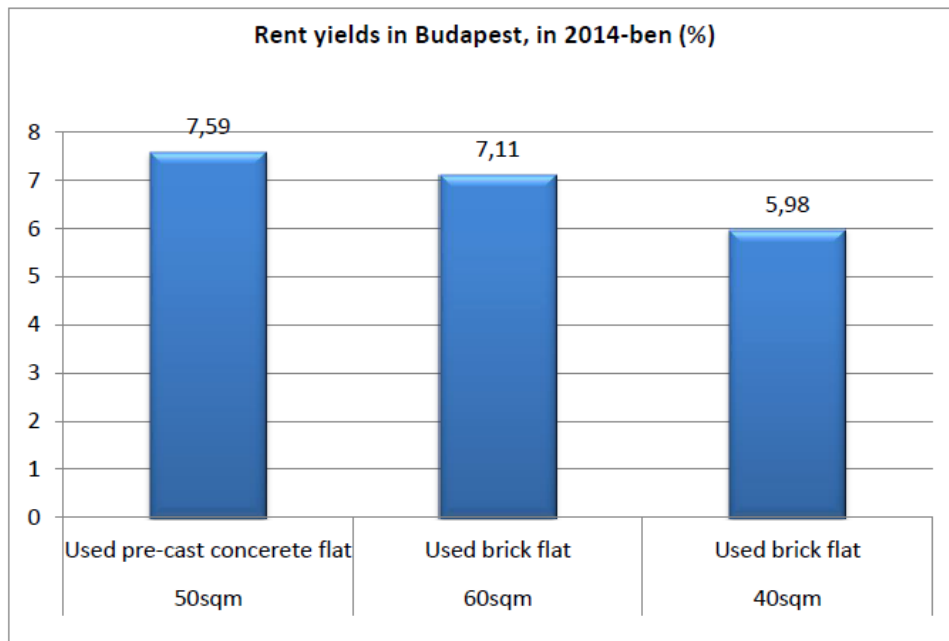
*Source: Otthon Centrum*

Rebound has been underpinned primarily by falling interest rates that are the consequences, first and foremost, of the Hungarian note bank's massive monetary easing. While the base rate was 8.5 percent in 2008, the benchmark rate has been 2.1 percent since the end of July 2014. This has improved not only home loan conditions but caused a drastic fall in the interest rates for bank deposits. In the quest for new investments, depositors have looked for and found promising



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investment options on the residential property market. The below chart shows rent yields. Data clearly indicate that yields on both pre-cast concrete and brick flats are higher than those on deposits. The renting of pre-cast concrete flats is even more profitable as their price per square meter is lower than that for brick flats. Yields for a 50sqm pre-cast concrete flat exceed 7.5 percent, while the rate of return on a 40sqm brick flat is also almost 6 percent.

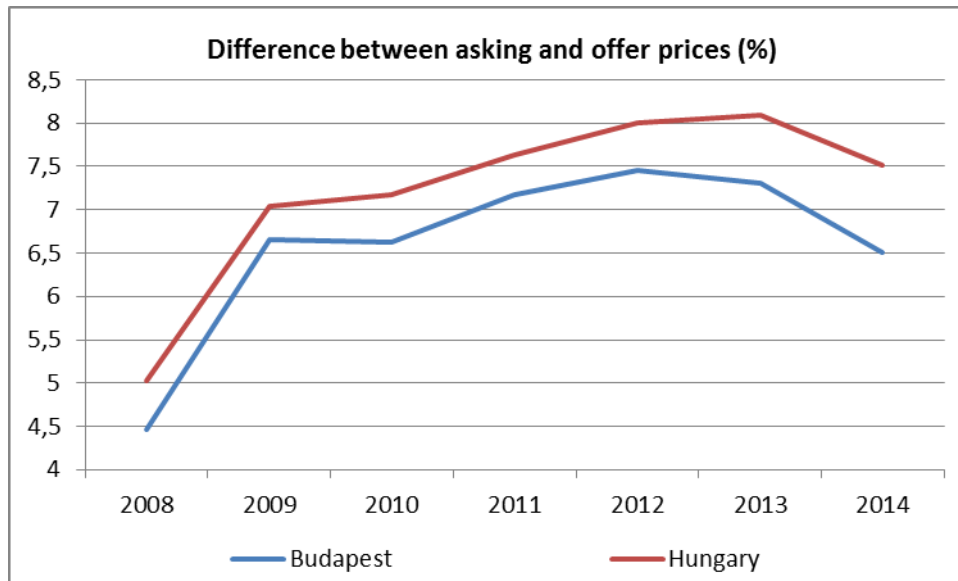


*Source: Otthon Centrum*

Thanks to increasing demand for residential property, the bargaining position of sellers has been improving. During crisis years, discounts achieved in purchasing negotiations -- relative to asking prices -- exceeded even 8 percent on average. However, buyers' manoeuvring room has last year narrowed all across the country. This change was even more pronounced in Budapest, but the trend reversal cannot be evaluated with regard only to one area. While in 2008 the difference between asking and offer prices was almost the same in Budapest and elsewhere in the country, bargaining positions have shifted significantly over the past years. In 2014, in light of national statistics, discounts were around 7.5 percent, while in the capital city of Hungary it was 1 percent less.

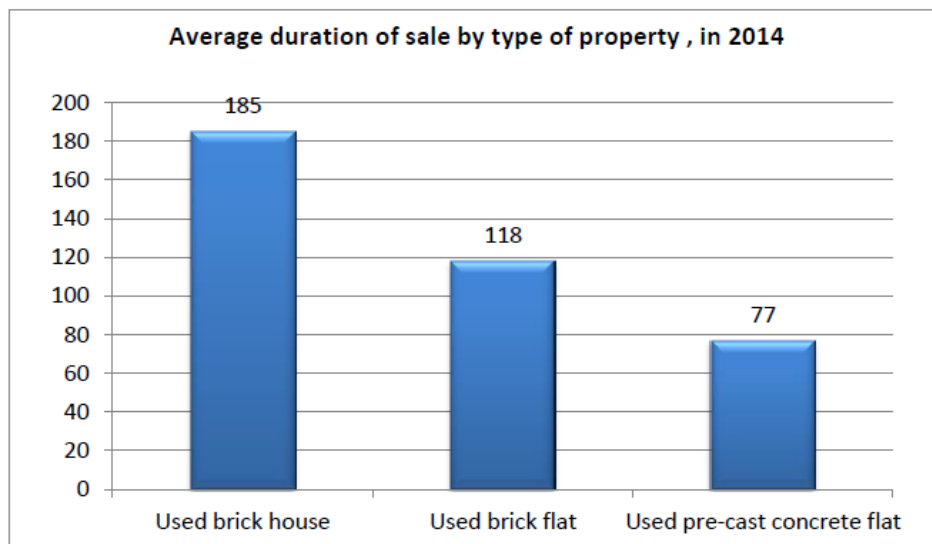


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*Source: Otthon Centrum*

The average duration for selling residential property has also shortened. As the price per square meter of used pre-cast concrete flats is lower and thus yields on renting them are higher, it is not surprising that these flats sell within as many as 77 days on average. In comparison, it took more than 100 days for higher-priced brick flats to sell last year and the sale of used brick houses required even more patience.



*Source: Otthon Centrum*



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As the majority of flats are still purchased as an investment and not as homes, the Government has recognized that families must be assisted in obtaining their property. To this end, as of July 2015 families with one child will also be entitled to receive home subsidies and that will further add to the recovery of the real estate market. This year, disbursements from the Family Housing Grant scheme will total HUF 4bn, while as of next year the amount of funding is expected to be as high as HUF 9-10bn. According to Government estimates, as of 2016 some 16 thousand families may benefit from the subsidies, and as it is an open-end fund the number of beneficiaries may even get higher. Applicants with one child are eligible to receive a grant of HUF 500 thousand, while families with three children may gain HUF 3.25 million. The amount of subsidy depends on the number of children, and the size and energy efficiency classification of the property. The amount granted is permitted to be spent on the purchasing, extension or refurbishment of properties.