OTP VALUE MAP 1/2012 FOR RESIDENTIAL PROPERTIES

In 2011 the real estate market was characterised by stagnation: while turnover remained flat, the nominal average price sank nearly 2% below 2010 levels. Despite somewhat brighter expectations this year it seems we still have to put up with the tension between supply and demand weighing down on the market. Nevertheless, both turnover and prices may gain some momentum next year.

In the present analysis of the OTP Value Map we offer an overview of the territorial real estate processes of the past year based on the complete transaction data of 2011. Our study focuses on the development of the turnover and prices. Relying on preliminary data from 2012Q1, besides a general outlook for this year, we will also draw the balance with respect to the market effect of early final repayments.

On the methodology of territorial price and turnover analysis

Our data are based exclusively on accomplished residential property market transactions. Our source was the database purchased from the National Tax and Customs Office (NAV, previously APEH). In the area of Budapest the 160 postal code zones, whereas in the rest of the country—excluding the capital—173 statistical micro-regions formed the territorial basis of our analysis. In order to make the NAV-database suitable for processing, first—by creating territorial limits and relying on our experience—we gradually filtered out erroneously or incompletely registered transactions In order to reach the case number necessary to form regional average prices, in the case of areas with incomplete data, we applied polynomial interpolation to compensate for missing data.

Stagnating turnover in 2011

Due to the powerful year-end pick-up of the market, in 2011 the change in the turnover of properties was not remarkable compared to 2010: **on the national level** NAV registered almost exactly the same amount of sales transactions (close to 90,000) in both years. At the level of the counties, the number of sales transactions increased in 9 (exceeding 10% in Tolna, Győr-Moson-Sopron and Veszprém), and decreased in 10 (by more than 10% in Nógrád, Heves and Borsod-Abaúj-Zemplén). The East-West division is striking: while in the Trans-Danubian region turnover decreased merely in three counties, in the Eastern parts of the country only three counties experienced growth.

Although on *Map 1* we can distinguish some interconnected darker and lighter areas, the picture is very mixed if we penetrate deeper than the county level. Turnover grew in 84 micro-regions, dropped in 85 and stagnated in 4. Both Western (in the counties of Trans-Danubia and Pest) and Eastern micro-regions are represented roughly equally in the most advantageous (displaying a growth exceeding 15%) and least favourable (showing off a decrease below 20%) categories. The statistics show the greatest grade of turnover increase in the micro-region of Ajka, nevertheless here the tripling of turnover was the result of the red-sludge catastrophe and the subsequent re-constructions in Devecser and Kolontár mostly performed during 2011.

Map 1
Changes in the year-on-year turnover of micro-regions (2011, %)

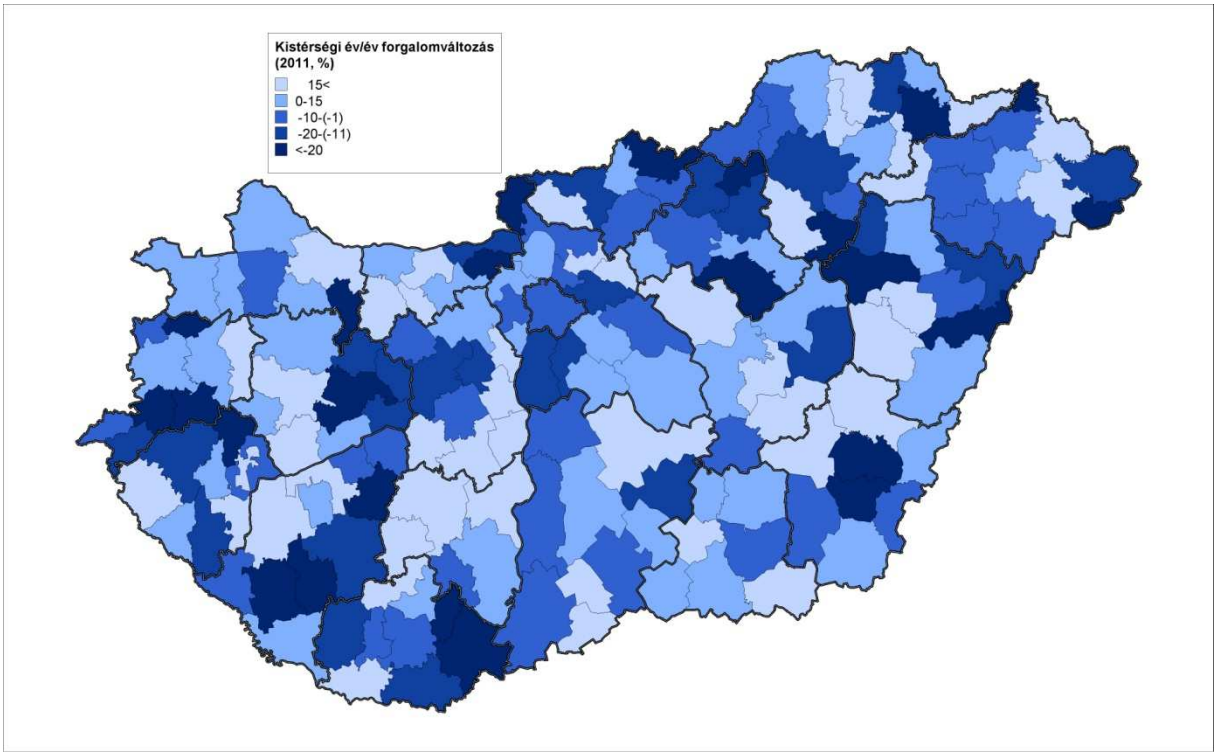
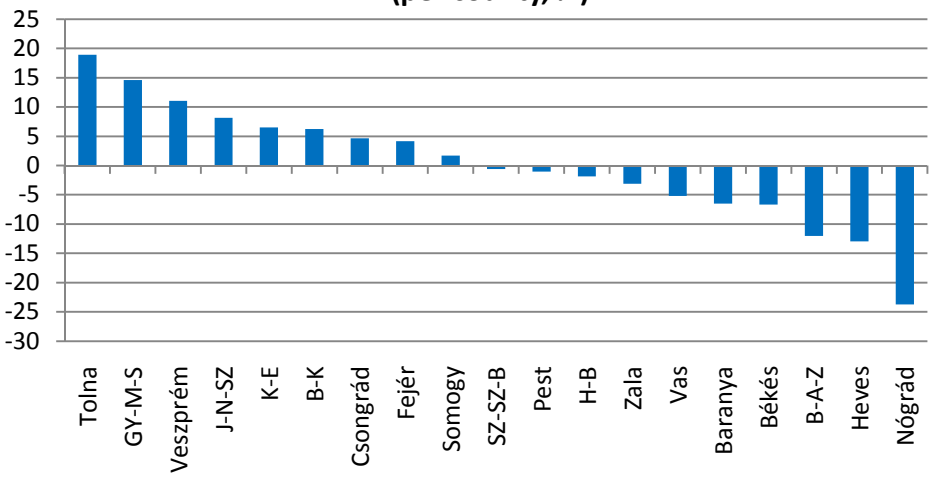


Diagram 1: **Changes of annual turnover in 2011 (per county, %)**



Last year in **Budapest** the number of transactions shrank by altogether 2%. At the level of districts, the turnover grew in 8 areas (exceeding 20% in Districts no. V, II and I), and decreased in 15 (by more than 20% in Districts no. XXI and VII).

Considering the fluctuation of turnover at the level of postal code areas, we could witness growth in 69 areas, decrease in 85 and stagnation in 6. The uppermost category contains a roughly equal number of postal code areas from both the Pest and the Buda sides. However, on the right side of the Danube, significant contraction of turnover was experienced merely in four postal code zones (H-1038, H-1011, H-1126 and H-1115). Therefore, traditional downtown Pest and Csepel exemplify well the dual nature of market operations. While in District V the homogeneously growing turnover was coupled with increasing prices, in *Maps*

2 and *6* District XXI stands out with its dark patches (signalling remarkable price and turnover reduction).

Map 2
Changes in the year-on-year turnover of postal code zones of Budapest (2011, %)

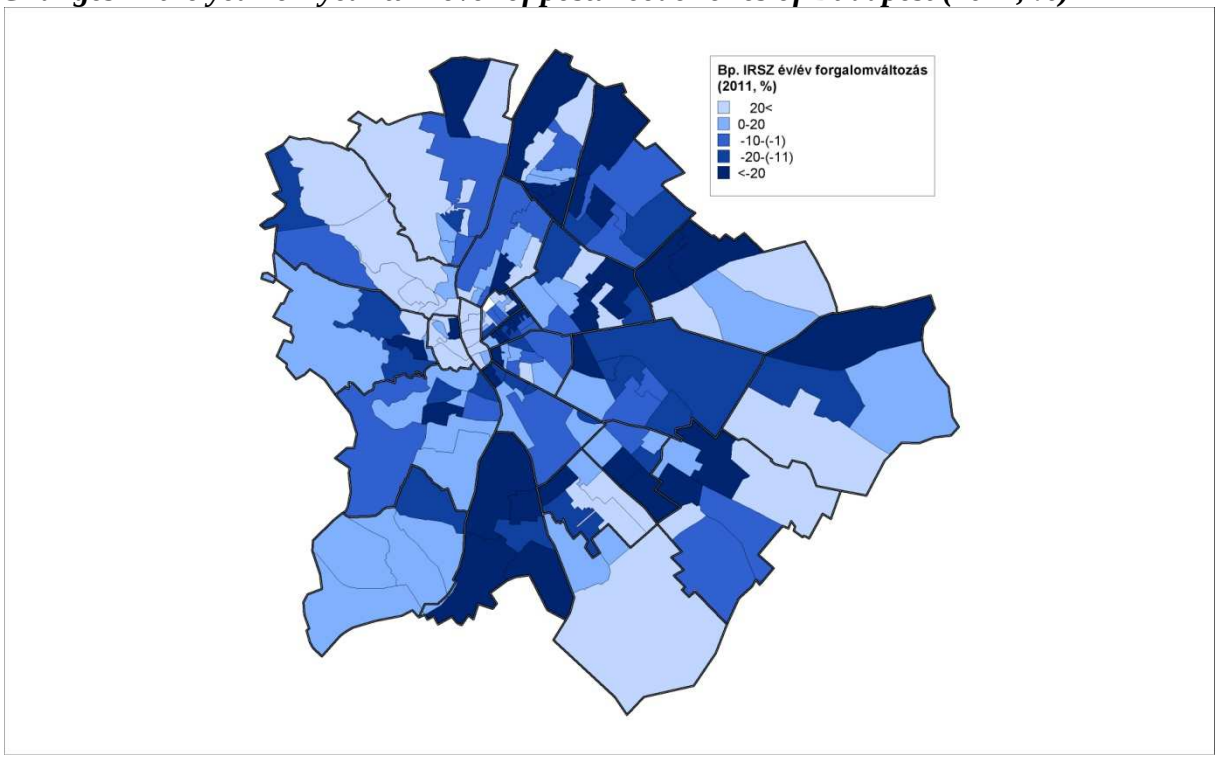
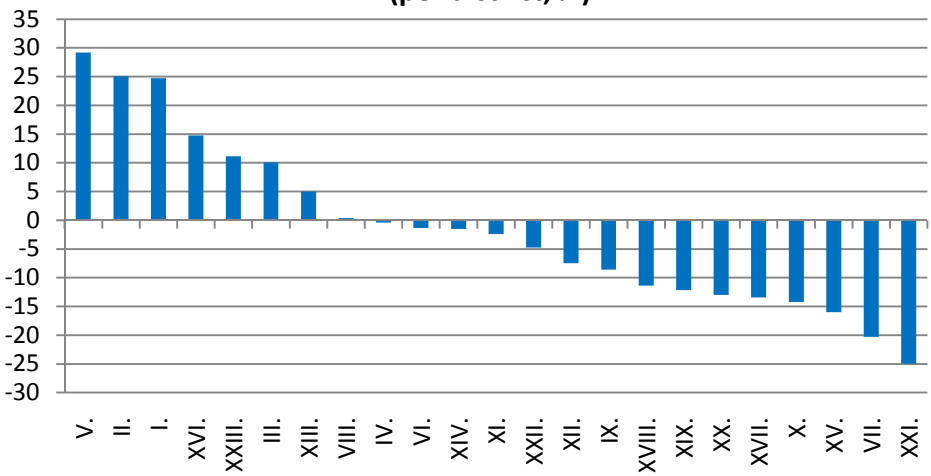


Diagram 2: **Changes of annual turnover in 2011 (per district, %)**



Buoyant market in cities and downtown areas

The intensity of turnover in the view of local specifications is expressed with the help of the turnover speed index. This is a relative number that shows the ratio of properties sold within a given period (in this case, over the year 2011) compared to the actual number of properties for sale. (By processing the databases provided by NAV and filtered in compliance with legal provisions, we can primarily demonstrate the territorial relations of the turnover speed).

On the national level, in 141 micro-regions the stock-proportionate turnover does not reach 1%. From the 32 micro-regions with a turnover above 1%, 23 are located in the Trans-Danubian region or in the county of Pest. So the declining tendency in the turnover can be clearly distinguished along the West-East division (*see Map 3*). From the 10 micro-regions with the relatively lowest turnover (below 0.3%) 3 are located in Heves and 3 in Borsod-Abaúj-Zemplén counties, whereas from the 10 micro-regions with the liveliest turnover (above 1.8%) 3 are situated in Győr-Moson-Sopron county. Furthermore, also micro-regions that are county seats can be clearly distinguished from the surrounding areas thanks to their livelier than average turnover. In the Eastern parts of the country only two of the micro-regions that fall into the best category are not county seats (namely, Hajdúszoboszló and Tiszaújváros).

Map 3
Turnover speed in micro-regions (2011, %)

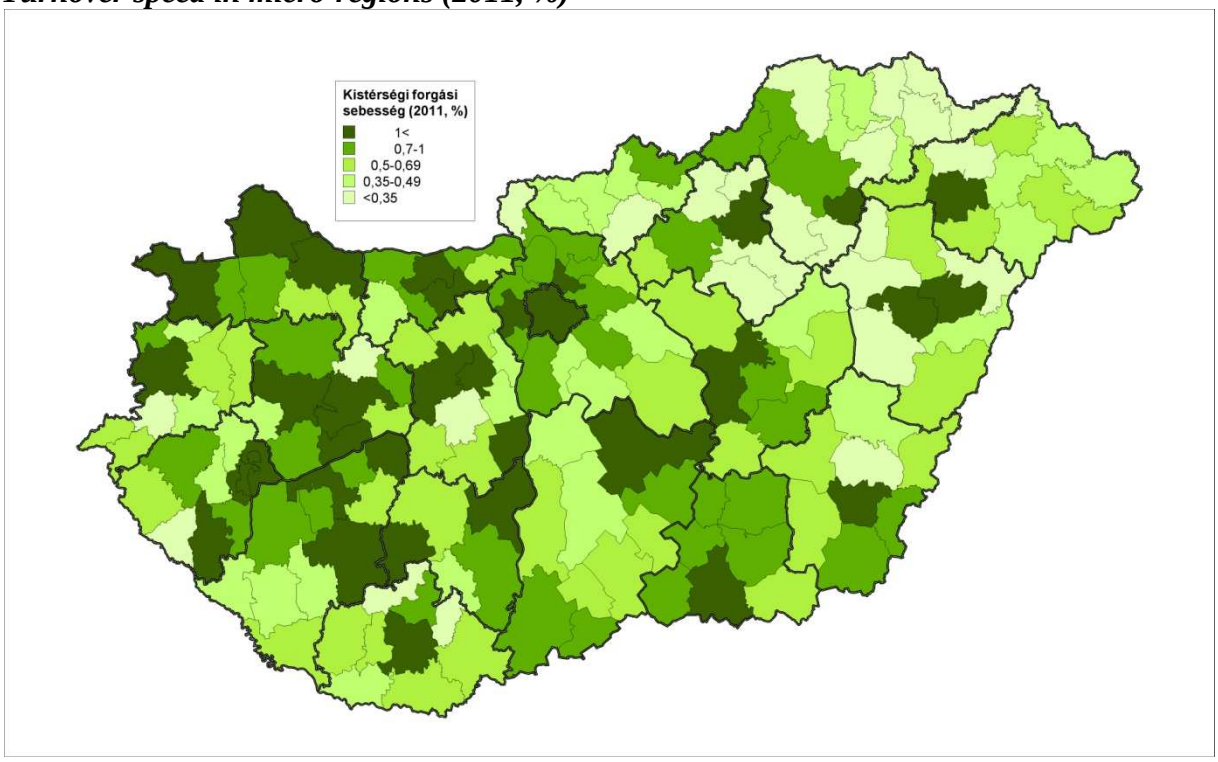
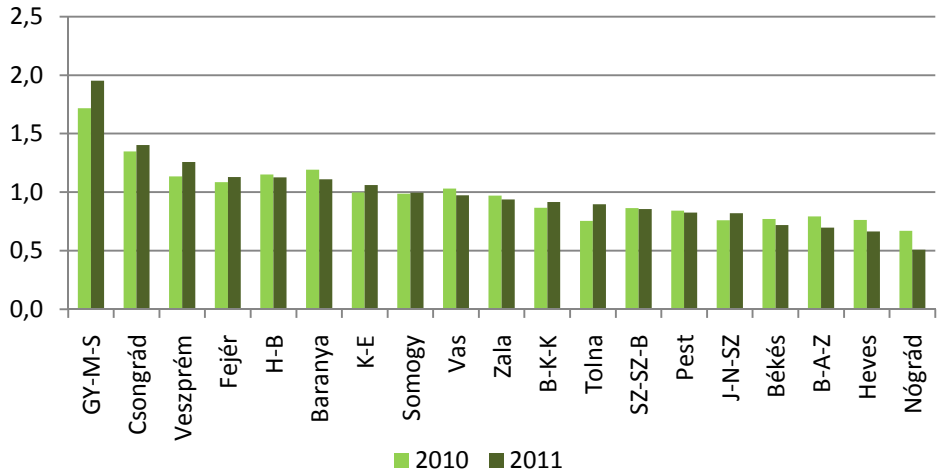


***Diagram 3:* Turnover speed per county (%)**



Since for **Budapest** we do not have any information based on postal code zones, for an analysis of turnover speed we relied on data broken down at the level of the districts. The two extremes are District no. XXIII with its 0.7% and no. XIII with its 3.3% turnover. With some simplification we can say that *Map 4* visualises the duality of the low-turnover marginal districts of Pest on the one hand, and the more active central districts with a relatively high turnover even despite the crisis, on the other.

Map 4
Turnover speed in the districts of Budapest (2011, %)

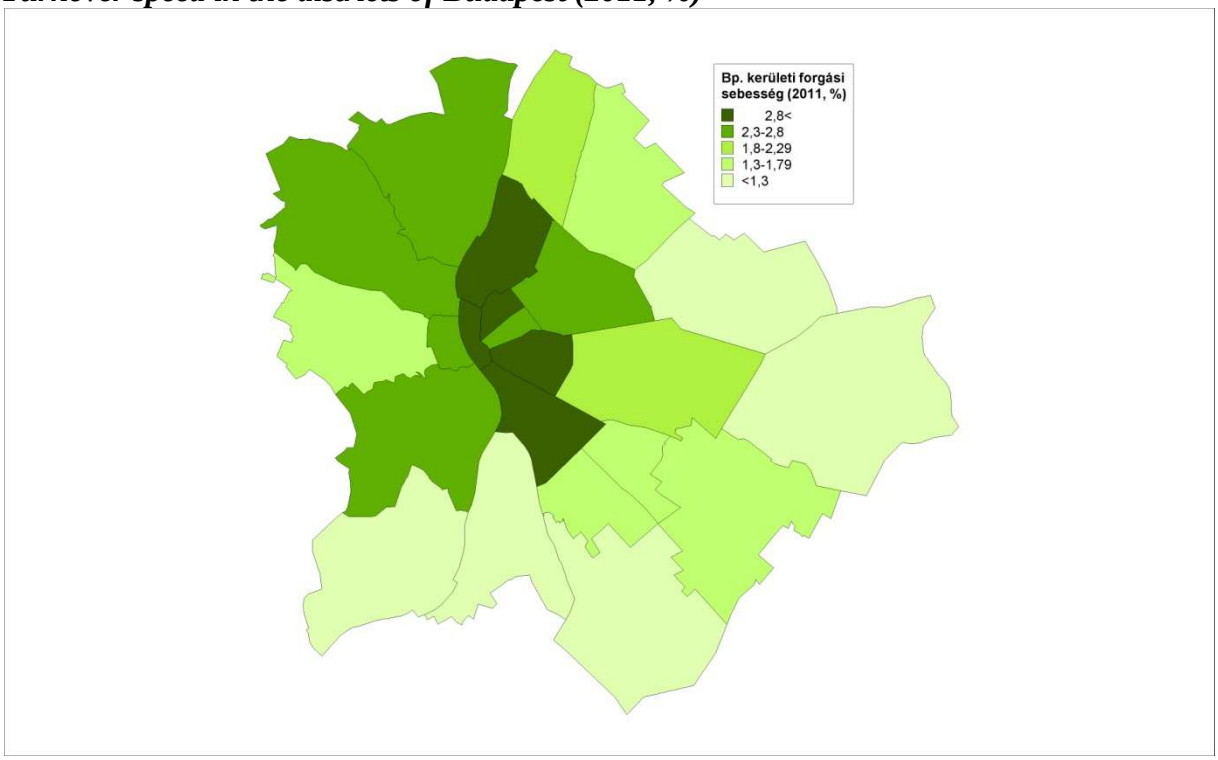
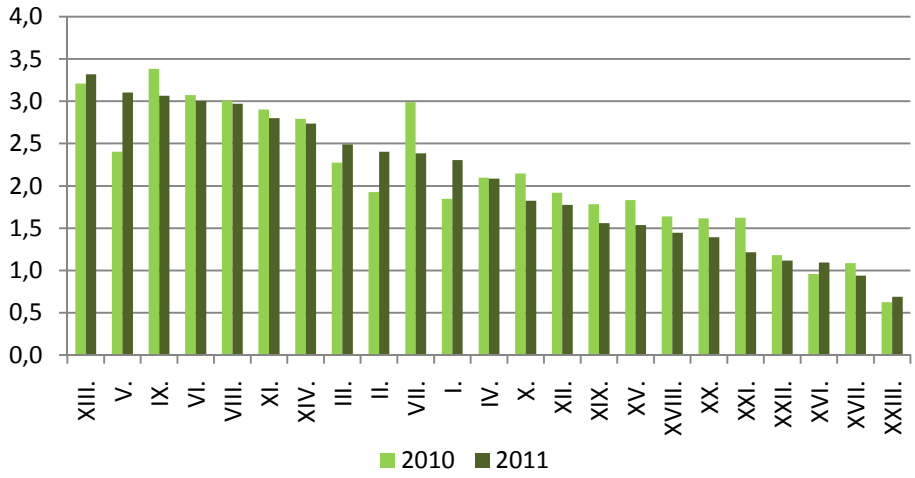


***Diagram 4: Turnover speed per district* (%)**



Price changes: No regional regularities

In 2011, **on the national level** the number of sold properties decreased by almost 2%. Thus we can declare that the pace of the price slump that started in 2008 is really slowing down, as suggested already in the previous issue of our Value Map. The market experienced a positive shift compared to 2010 in six counties (Tolna, Somogy, Győr-Moson-Sopron, Bács-Kiskun, Szabolcs-Szatmár-Bereg and Zala). Nevertheless, it is the impact of the compound effect that accounts for example for the 10% price rise experienced in the county of Tolna, resulting from the sale of a block of flats at a price way above the county average (constituting 10% of the turnover). Interestingly, the greatest price decrease of 8-9% occurred in the three mid-Trans-Danubian counties (Fejér, Veszprém and Komárom-Esztergom). However, it is still important to point out that the changes of the prices and of the turnover are not interlinked, i.e. no explanatory correlation can be spotted between the two indices.

At the level of micro-regions, in 111 of them price fluctuations were negative over the past year. Average prices dropped by more than 10% in 22 of the micro-regions, 3 of them being located in Fejér and another3 in Jász-Nagykun-Szolnok *(see Map 5)*. The map displays few regularities at the level of the micro-regions (e.g. no East-West division can be observed). Besides the area with a price increase exceeding 5% consisting of 9 micro-regions of the three South-Trans-Danubian counties (Somogy, Tolna and Baranya), 3 of which lie on the shore of Lake Balaton, the patches with the lightest shades can be found in the county of Győr-Moson-Sopron; this is the area where last year prices grew in all of the 7 micro-regions. It is interesting to note that among the top-10 micro-regions at both (the highest and the lowest) ends of the price range we can find 8 Trans-Danubian and 8 Pest county micro-regions.

Map 5
Year-on-year price changes in micro-regions (2011, %)

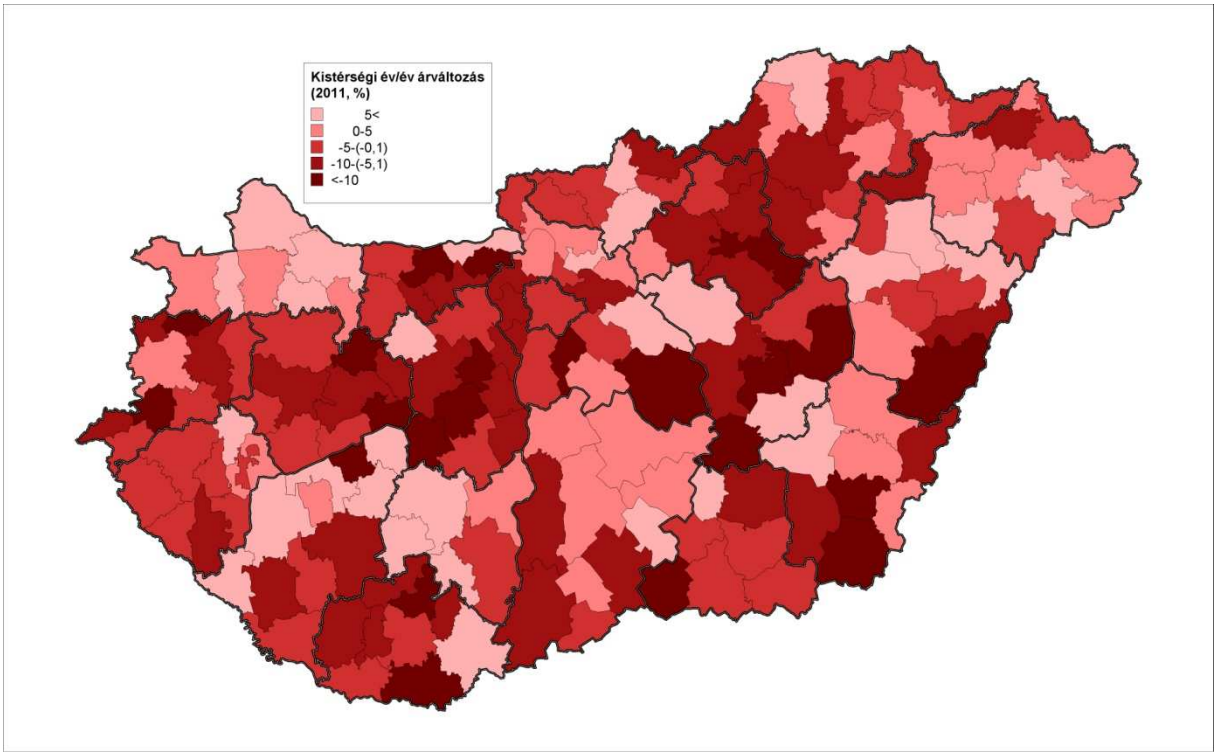
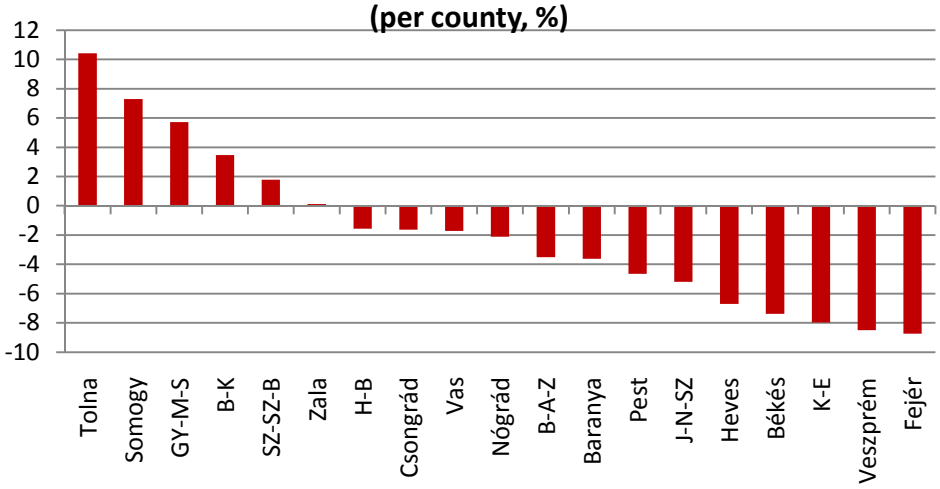


Diagram 5: **Annual price changes in 2011 (per county, %)**



Compared to national tendencies, last year the extent of annual price fluctuations was somewhat tempered in **Budapest**. Five districts experienced rising prices (Districts no. III, V, VI, IX and XXIII). Just like with Tolna in the case of counties, also the large extent of the price increase exceeding 10% characterising District no. XXIII is a classic example of the compound effect. Here, at the level of the capital, the price shifted from the lowest district level of 2010; besides, when turnover is as low as this, even the sales of a dozen new-built terraced houses can significantly influence the average price. A more than 5% decline in prices was observed in three Southern districts of Pest (XVIII, XIX and XXI) and in District no. XII.

The average transactional price dropped by more than 10% in 19 postal code districts, from which 6 are situated on the Buda side and 3 in District no. XVIII *(see Map 6).* At the same

time, from the 23 zones that underwent the most remarkable rise exceeding 5% only 4 are located on the Buda side, whereas 3 are situated in District no. XXIII and another 3 in no. XV. Within the surveyed time span and spatial relations, neither the stereotypical division of East-West at national level, nor that of Buda vs. Pest can be applied.

Map 6
Year-on-year price changes in postal code zones of Budapest (2011, %)

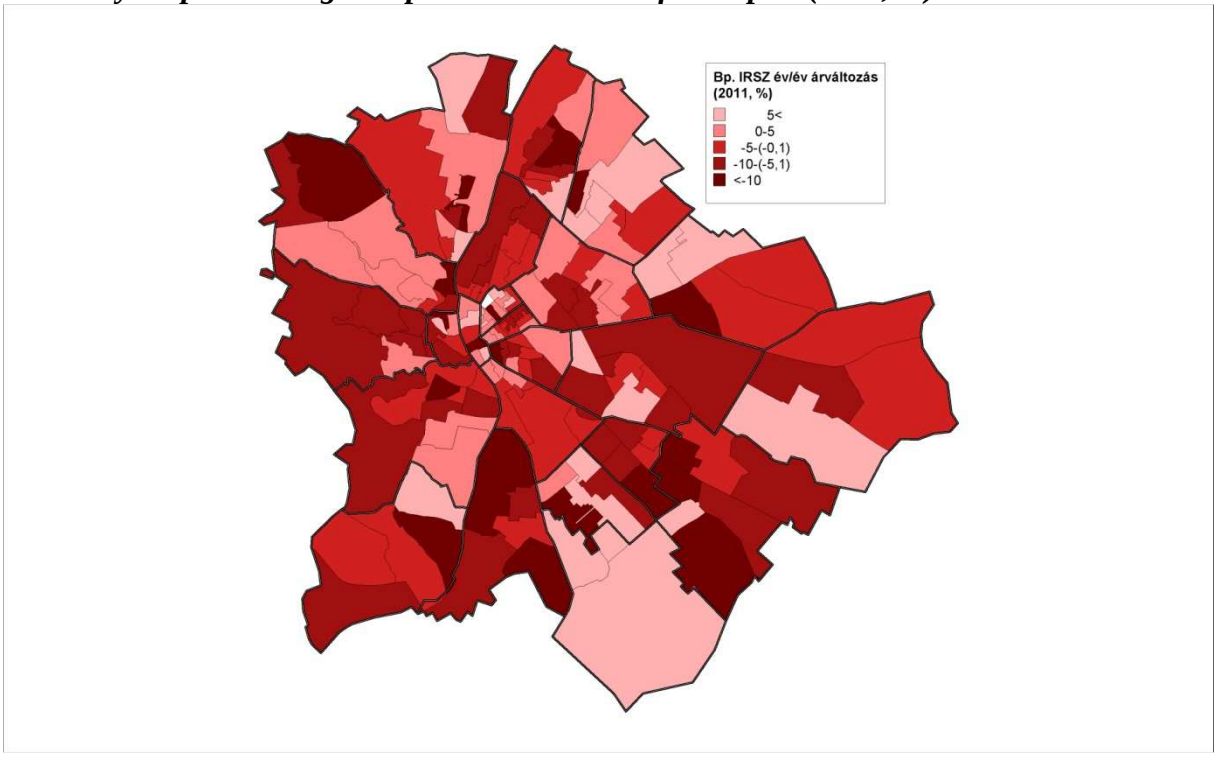
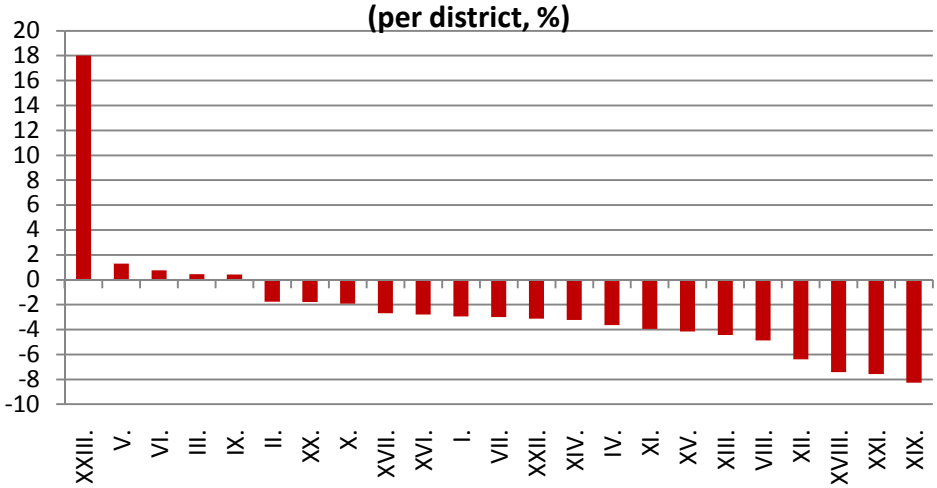


Diagram 6: **Annual price changes in 2011 (per district, %)**



The impact of early final repayments

As for the individual quarters of the past year, it is obvious that the early final repayment scheme offered in the last month of 2011 and in the first three months of 2012 did exercise a measurable influence on prices. It is clear from a year-on-year comparison that last year the

mild decline of Q1 was followed by a moderate growth of prices in Q2 and Q3, as result of which by the end of the year properties were sold at a price of roughly 5% below the price level of the previous year (and hardly less than 1% below the level of the previous quarter). Based on preliminary data, in Q1 of 2012 the negative tendency continued.

Compared to the national average, territorial (regional) differences are significant, nor did the early final repayment scheme result in overall declining prices. Compared to the first three quarters of 2011, the rate of depreciation exceeded the national level in the counties of Fejér, Heves, Pest, Somogy, Vas and Veszprém. Therefore, with some caution, we may draw the conclusion that the early final repayment scheme promoted significant price reductions mainly in areas with higher prices.

As the share of cheaper properties sold did not visibly increase (amounting to 56-59% of the category below HUF 10 million both before and after the early final repayment scheme), the reason for the decline in the average price level was clearly the sellers' greater willingness to make reductions during the availability of the scheme. Differences between the types of property are worth some more scrutiny: as opposed to flats, the average selling price of houses went down significantly only in the first quarter of 2012, during the peak period of the early final repayment scheme. The main reason is less price-flexibility of the type of property partly due to its lower share within the total turnover (amounting to 5% in Budapest and 25% in national comparison). Nevertheless, by early 2012 owners started to experience some pressure to sell also in this area.

Average prices from Borsod to the Balaton, from Csepel to the Castle of Buda

In 2011 the average price of properties sold **nation-wide** was HUF 11.76 million (HUF 9.48 million excluding Budapest), with a value of HUF 11.43 million for flats only (and an average price of HUF 8.73 million in the countryside). In a territorial comparison, however, average prices still deserve some deeper examination. Somogy ranks as number one at the level of counties with its average price of HUF 202,000/sq m. The county of Pest lags behind this level with an average of HUF 10,000, followed by Győr-Moson-Sopron and Hajdú-Bihar with their average price of HUF 166,000/sq m each. Nógrád is the only county that does not reach the HUF 100,000/sq m price level, while in the category below HUF 120,000/sq m we can find Borsod-Abaúj-Zemplén, Békés and Jász-Nagykun-Szolnok.

At the level of micro-regions, the most expensive areas continue to be concentrated around the capital and the Lake Balaton: last year from the 173 micro-regions only 10 held an average price above HUF 200,000/sq, from these 5 are located in the county of Pest and the other five around the lake. With their average value exceeding HUF 300,000/sq m, the micro-regions of Siófok and Fonyód outdo even the capital. The price-increasing effect of the large number of new-built flats sold at the Southern shore of the lake is a key factor here.

In 27 micro-regions average prices do not reach HUF 80,000/sq m. From these, 8 are located in Borsod-Abaúj-Zemplén, 3 in Szabolcs-Szatmár-Bereg, Heves and Zala each (see *Map 7*). The absolute difference between the lowest and highest county averages (2.3) did not change from 2010 to 2011, whereas that of the micro-regions did slightly decrease (7.5). As a rule, the micro-regions with a county seat did distinguish themselves with higher prices than their surroundings. Interestingly, the cheapest micro-regions of Tolna and Veszprém (Tamási and Sümeg) are more expensive than the priciest micro-region of Balassagyarmat in Nógrád

county. The micro-region of Balatonalmádi comes closest to the countryside average of HUF 151,000/sq m.

Map 7
Average prices in micro-regions (2011, HUF/sq m)

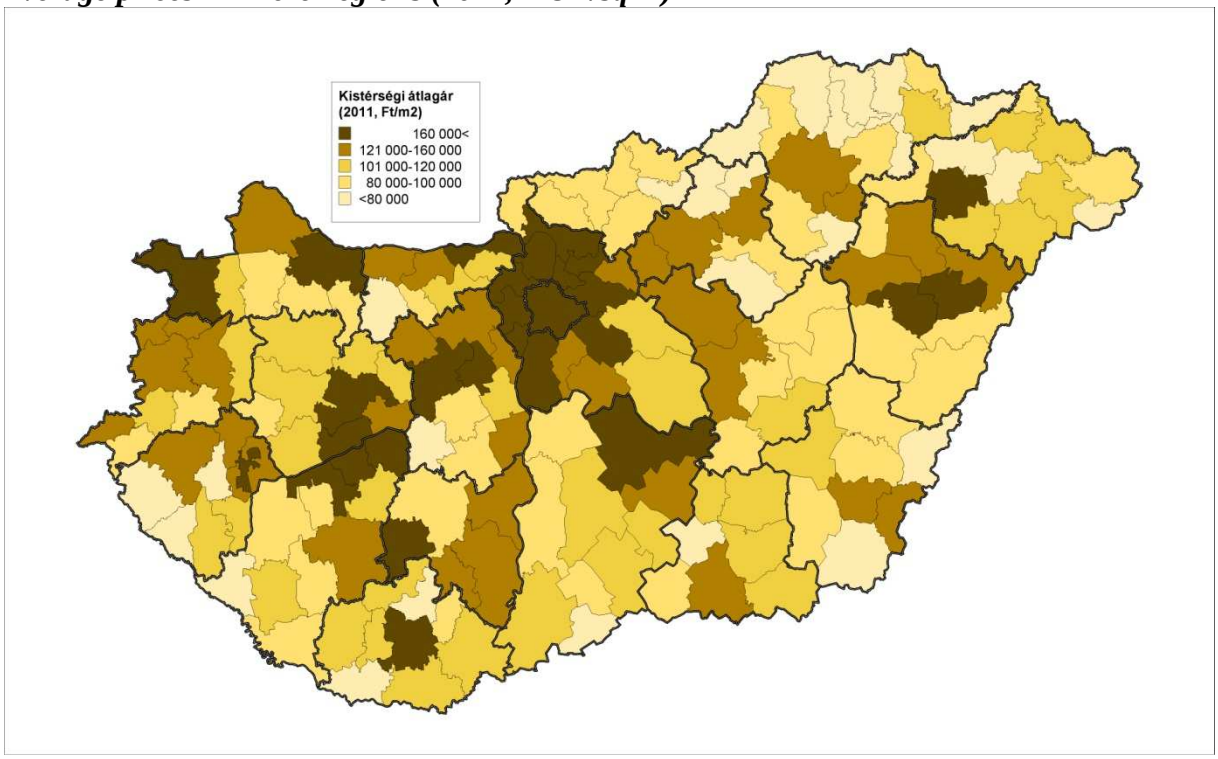
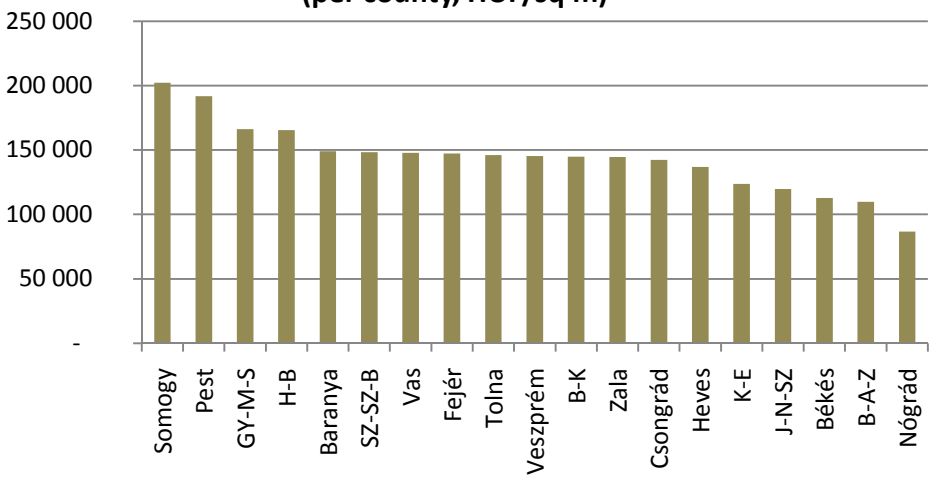


Diagram 7: **Average transaction prices in 2011 (per county, HUF/sq m)**



Last year in **Budapest** properties were sold at an average price of HUF 14.78 million and an average of HUF 14.44 million for flats. Considering average prices, District no. II was the most expensive (HUF 374,000/sq m), followed by District no. V (HUF 351,000/sq m), which—compared to 2010—overtook Districts no. XII and I. The cheapest properties were available in District XXI, in Csepel, for an average price of HUF 161,000/sq m. (*Map 8* shows that while all postal code zones of District no. V belong to the most expensive

category, those of Csepel unanimously fall into the cheapest category.) This is followed by Districts no. XV (HUF 172,000/sq m) and XVII (HUF 185,000/sq m).

Interestingly, the multiplier between the cheapest and priciest properties remained the same at the district and county level (2.3), while the difference grew remarkably at the level of the postal code zones to a multiplier of 4.7, which nevertheless cannot be called a tendency yet. The least expensive zone was Csepel-Ófalu and Gyártelep (H-1211) with a price of HUF 146,000/sq m, while the most costly area continues to be the Castle (H-1014) with HUF 681,000/sq m. The most expensive postal code zone of the Pest side, which is 7th on the list of the capital, is located in Lipótváros (H-1051, HUF 387,000/sq m), and the cheapest of the Buda side lies in Distrcit no. XI (H-1039 Békásmegyer, HUF 166,000/sq m). Zone H-1064 is closest to the average Budapest price of HUF 257,000/sq m.

Map 8
Average prices in postal code zones of Budapest (2011, HUF/sq m)

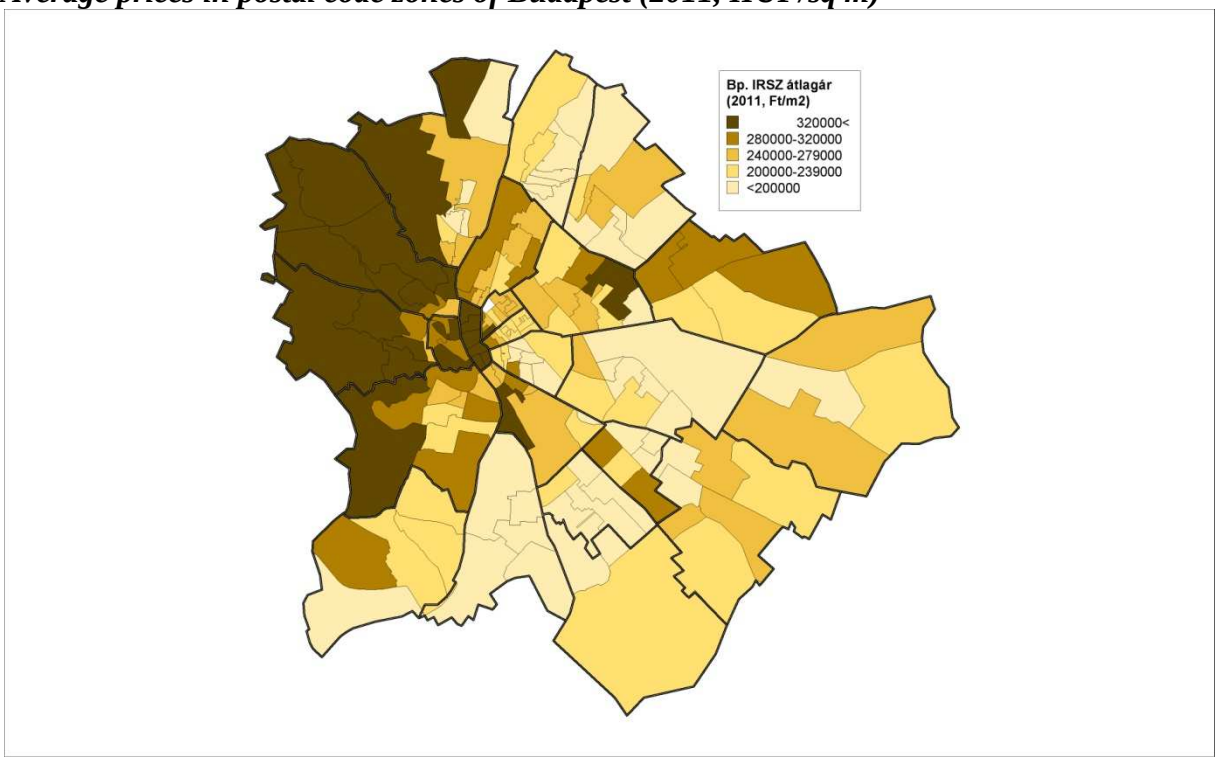
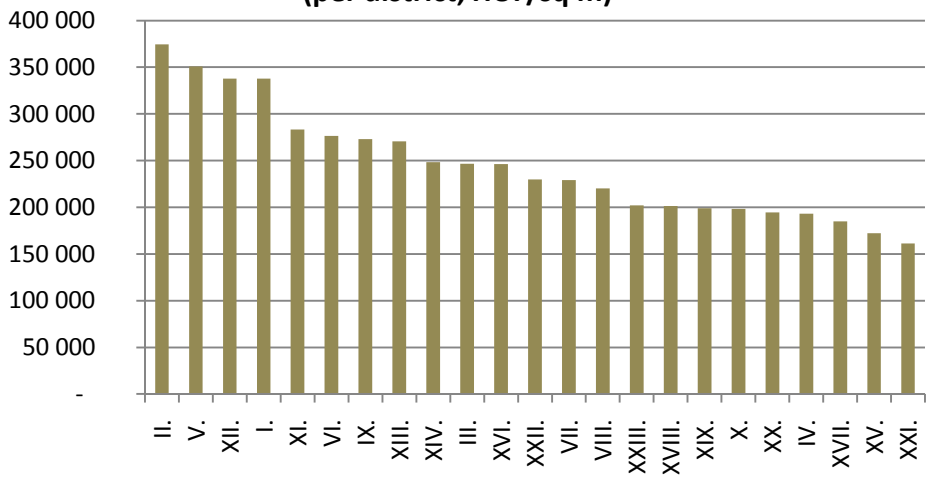


Diagram 8: **Average transaction prices in 2011 (per district, HUF/sq m)**



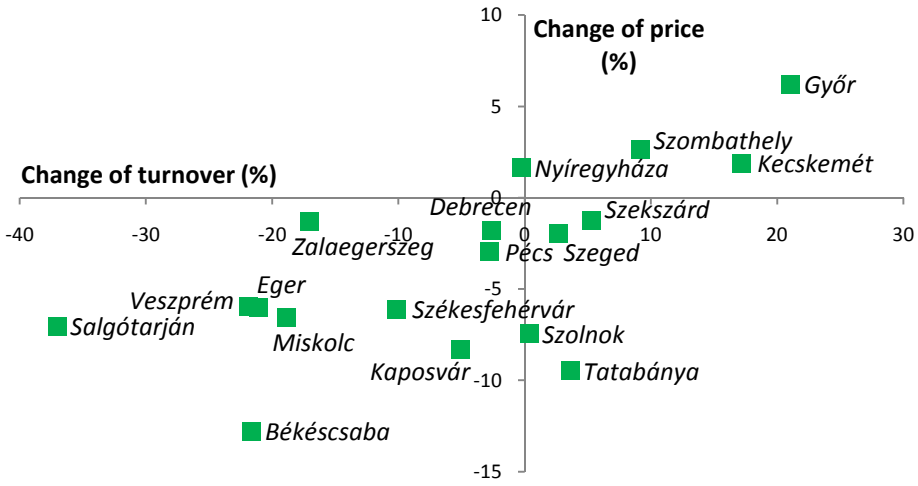
Overview of the market of county seats

Our real estate analysis contains a separate section on the market of county seats, which makes up almost a quarter of the national turnover. In addition to the transactional database and the indices used so far, our local market research added some extra information on the parameters of the actual demand.

Displaying the annual data provided by NAV **on fluctuations of the price and turnover**, the county seats form clearly distinguishable groups. Last year Győr, Kecskemét and Szombathely underwent a positive shift with respect to both data. Győr stands out of the group with its one-fifth turnover growth and prices that rose by 6%. Nyíregyháza is another county seat that experienced a slight positive change in the prices, coupled with a negligible decline of the turnover. Despite mildly decreasing prices, the market picked up somewhat in Szekszárd, Szeged, Szolnok and Tatabánya. At the same time, in the case of the last settlement, the upturn was coupled with a price decline of 9%.

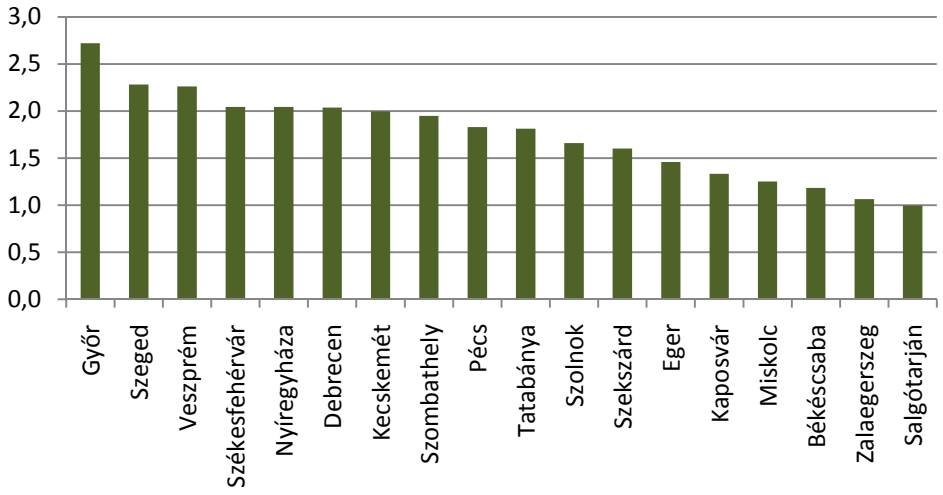
In ten of the large towns both market indices showed a more or less significant drop. Békéscsaba, Salgótarján, Eger, Veszprém and Miskolc seem to have formed a group that experienced remarkable decline with respect to both price and turnover. In Székesfehérvár, Zalaegerszeg and Debrecen the drop was more palpable in the turnover, whereas in Pécs and Kaposvár the decline manifested more in the prices.

***Diagram 9:* Annual changes of price and turnover at county seats (2011, %)**



As mentioned earlier, by processing the databases provided by NAV and filtered in compliance with legal provisions, we can primarily demonstrate the territorial relations of the turnover speed. Similarly to every other index, Győr ranks as number one among county seats, with Szeged and Veszprém standing out of the list as well. Of course, fluctuations of the turnover over a year have a great impact on turnover speed. The primary factors influencing the market activity of a settlement are its regional importance, existence of a university campus, job creation, the proximity of a nationally popular holiday resort and, in general, the prosperity of the region; the combined effect of these factors makes a settlement an attractive target for investment-purpose property purchases.

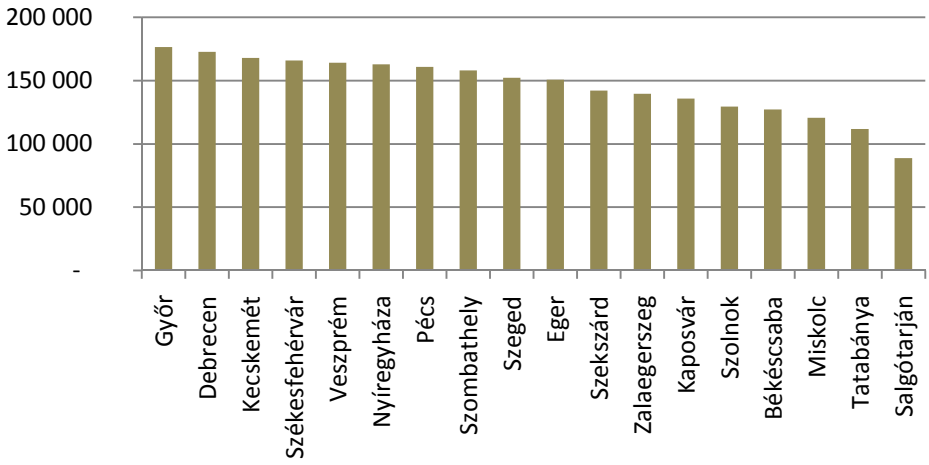
***Diagram 10:* Turnover speed at county seats (%)**



The statistics demonstrate an exactly twofold difference between the average prices of the cheapest and priciest county seats (Győr: HUF 176,000/sq m, Salgótarján: HUF 89,000/sq m). There is a pronounced, 0.76 explanatory correlation between turnaround speed and average price, i.e. lively turnaround promotes sales at somewhat higher prices (including changes in the composition of the sold stock, such as greater ratio of new-built flats). In the case of

Kecskemét for instance the establishment of the Mercedes-factory played a revitalising influence.

***Diagram 11: Average transaction prices at county seats in* 2011 (HUF/sq m)**



When looking at the **demand** of the past half year, in the course of our survey we primarily endeavoured to reveal the basic parameters of the most highly sought after types of property in different towns. Most buyers prefer flats in brick-built condominiums, therefore the table below displays the characteristics (number of rooms, size and price) which ensure best potential for this category of property to be sold.

Studios, 1.5 and 2-room flats are the most favoured almost everywhere, with demand for higher-category properties manifesting mainly in Pécs, Veszprém and Zalaegerszeg. Flat sizes are in line with the preferred number of rooms. Adapting to the local price level, the characteristic preferred price limit is HUF 8-10 million (HUF 5-6 million for studios). The diagram displaying general price levels is reflected also in these data: while buyers looking for studios in Győr consider HUF 8-10 million an acceptable price limit, in Salgótartján 1.5-2 room flats are sought after typically in a value of maximum HUF 6 million. In Veszprém and Zalaegerszeg there is demand for somewhat larger than average brick-built flats in a value over HUF 10 million. While in most larger towns in the low-end market category there is significant demand for flats in pre-fab apartment houses, detached family houses are sought after only in Kaposvár, Pécs, Salgótarján, Szombathely and Tatabánya.

***Table 1:* Parameters of the most sought-after flat types of brick-built blocks of flats in county seats**

	Number of rooms	Size (sq m)	Price category (HUF million)
Békéscsaba	1 + half / 2	40-50	6-8
Debrecen	1 + half / 2	40-50	8-10
Eger	1 + half / 2	40-50	8-10
Győr	studio	<40	8-10
Kaposvár	1 + half / 2	50-60	6-8
Kecskemét	studio	<40	<6
Miskolc	studio	<40	<6

Nyíregyház	1 + half / 2	50-60	8-10
Pécs	1 + 2*half rooms / 2 + half room	50-60	8-10
Salgótarján	1 + half / 2	50-60	<6
Szeged	1 + half / 2	40-50	6-8
Székesfehérvár	studio	<40	<6
Szekszárd	studio	<40	<6
Szolnok	1 + half / 2	40-50	<6
Szombathely	1 + half / 2	40-50	6-8
Tatabánya	1 + half / 2	40-50	<6
Veszprém	1 + 2*half rooms / 2 + half room	60-70	14-16
Zalaegerszeg	1 + 2*half rooms / 2 + half room	60-70	10-12

Infrastructural and job creating investments have the potential to revitalise local demand, sometimes affecting only particular parts of a settlement. We can find such examples in almost all of the county seats. To name just a few projects with market-stimulating effect: in Debrecen the development of the airport, the construction of a new tramline and the renovation of the railway station; in Győr the presence of the Audi-factory and its suppliers; in Kecskemét the presence of the Mercedes-factory and its suppliers, construction of a sports centre; in Miskolc renovation of the network of tramlines and roads; in Nyíregyháza the extension of Motorway M3 and the construction of a sewage system in the green-belt area.

Expectations – Stagnation with a positive outlook

Currently the residential property market is characterised by multi-polar tensions between demand and supply. Based on the annual turnover statistics of the years before the property boom, on the demand side, the basis for a market pick-up could be a transaction base of approximately 150,000 purchase intentions, which have been delayed or postponed over the past few years due to unfavourable economic and credit conditions. Nevertheless, on the supply side, the properties of owners struggling with their debt servicing or having accumulated arrears with delays of more than 90 days could also significantly boost the volume of a latent market. This quantity, if marketed within a short period of time, could be absorbed exclusively by a demand backed up by sufficient lending activity. However, for this year further stagnation is likely on the residential property market, with a pick-up to start in 2013.

Weak demand for properties can be partly explained with the continuing fiscal austerity and a lending activity that is much more constrained and higher priced than before the crisis. Nevertheless, the market outlook is improving: surging investment-purpose purchases of recent months, market confidence-boosting debtor-relief programmes, as well as the launch of different loan schemes linked to social subsidies and subsidised interest rates may give reason for optimism. In our view, these developments will lead to a pick-up of the market previously weighed down by the early final repayment scheme. Therefore a nominal stagnation can be expected to characterise prices over the whole year.

Mandatory energy efficiency certificates to be attached to sale and purchase contracts from 2012 on will promote buyers' awareness regarding the quality of properties, and will shift focus on low-maintenance properties. This factor is likely to contribute to the faster and smoother sales of higher quality properties, yet on the long run it may also result in higher prices.