To the Reader:

It is with great pride and pleasure that I introduce FHB's newest product. In announcing the launch of this new service, I would like to focus on the background of the FHB House Index and its role within the company. FHB Mortgage Bank, which began operations on October 21, 1997, offers a broad range of mortgage-based loans throughout Hungary via its national network of business partners and branches. One of FHB's most important traditional activities has been the introduction of mortgage bonds to the financial markets and working to achieve their recognition. The importance of the magnitude and reliable valuation of collaterals which back these bonds was most recently acknowledged in connection with the subprime crisis. Because the appraisal of collateral is critically important, experts at FHB Real Estate have been generating data for over ten years, using reliable and circumspect methods. Data has been collected, organized and validated since 1998, thereby allowing the bank to form expert opinions based on first-hand information and providing investors with ample grounds for confidence.

Of course, many other reports, values, percentages, opinions, experiences, offers and theories appear regularly regarding housing prices. However, by relying on data consistently managed by FHB over the past ten years, we can draw supported conclusions not only regarding the past and the present, but we can also generate prognoses with confidence. The FHB House Index is also evidence that FHB has contributed significantly to the modernization of real estate development and marketing, for the benefit of our communities. The introduction of the FHB House Index is a milestone both for FHB and the other players in the market, assisting our business partners in making forward-looking decisions. The FHB House Index is a reference of international quality and I am convinced that we have produced an important source of data to supplement current products.

We thank the management and employees of the Central Statistical Office and the National Bank of Hungary for their supportive cooperation. I would also like to extend my personal thanks to Áron Horváth, analyst at the central bank, as well as to my colleagues and experts at FHB, and finally, to our customers.

Dániel Gyuris
Chief Executive Officer
FHB Mortgage Bank Co. Plc.

FHB House Price Index debuts

FHB presents its new product, the FHB House Index, which promises to become an indispensable reference in the housing profession, as it is the first indicator of price movements in the Hungarian housing market that is based on actual transaction prices

FHB has been collecting and processing data on the values of residential properties since it began operations. It appraises the value of real estate using a consistent method, providing resultant information to the bank's mortgage, real estate mediation, valuation and other activities, as well as to our external business partners. Apart from indicators based on offer prices, no index with an appropriately long series of data and large sample size has been published in Hungary that is based on actual purchase and sell transaction prices, that reflects price movements of the Hungarian housing market with the reliability expected by the financial and housing professions. This gap has been filled by the FHB House Price Index which is of high professional, marketable quality and available to external subscribers.

The high quality of the FHB House Price Index enhances the recognition of FHB's competence in the housing market. In the preparation phase, internationally recognised, significant indicators served as examples, since we wish to achieve the local significance and international citation levels of the American S&P / Case – Schiller, the British Halifax and Nationwide indices, along with the Irish Permanent TSB and the German Hypoport. Similarly to the entities producing international indicators, FHB also reports on quantifiable housing market processes as a participant in the market with interests in financing, valuation and mediation of real estate. FHB therefore introduces the product of its accumulated knowledge, experience and data in the usable form of the FHB House Index in the fall of 2009.

Outlook to international housing price indices

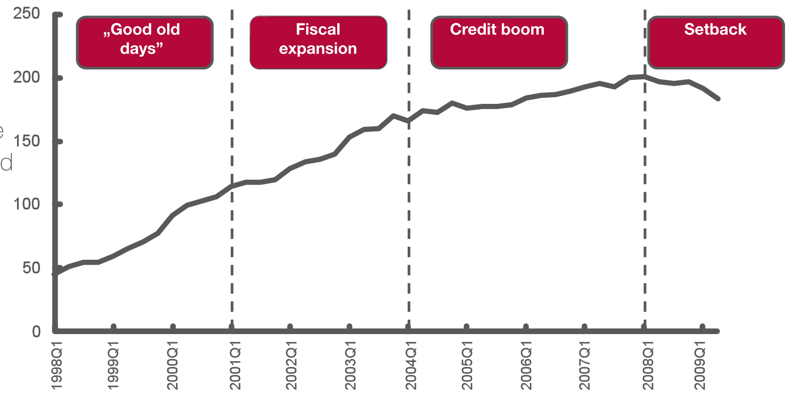
Name	Country	Background	Commencement of data collection	Publication	Comment
Nationwide Home Price Index	UK	Nationwide Building Soc.	1952	monthly	4th largest mortgage provider in the UK
Halifax House Price Index	UK	Lloyds Banking Group	1983	monthly and quarterly	based on own real estate and mortgage database
Case-Shiller Index	USA	Standard & Poor's	1988	monthly	most widely quoted housing market indicator
Permanent TSB House Price Index	IRL	Permanent TSB	1996	quarterly	largest Irish mortgage provider
Hypoport German House Index (HPX)	D	Hypoport AG	2006	monthly	From data representing approx. 10% of German market
FHB Index	**H**	**FHB Banking group**	1998	quarterly	800 thousand pieces of data

The FHB House Price Index shows the changes in the purchase-and-sell prices of Hungarian residential real estate from 1998 on quarterly. It was prepared processing transactions data of 800 thousand residential properties from some 3000 settlements (during the period under examination, real estate-related stamp duty was paid out for 3.23 million, of which 1.68 million were residential real estate, but not all were purchase-sell transactions). Sources of data were the observations of FHB gathered through its operations, as well as the database of stamp duty offices, later that of the tax office.)

Corresponding to international trends, the FHB House Price Index was prepared using the hedonic method, which is appropriate for demonstrating fundamental processes. This statistical procedure is the most widely used to measure changes in real estate prices. It is based on the assumption that the value of properties can be divided into the values of their attributes (such as location, construction type, etc.); furthermore, it is an appropriate treatment for one of the characteristic of the market, which is that not all the properties change owners in every quarter. So the simple indicators (mean- and median price) are derived from the special characteristics of the currently sold properties, the composition of the sample (composition effect). The change in the territorial distribution of transactions is fairly common, but with the hedonic method it is possible to filter out the effect, for example, of having more transactions in Budapest in certain periods. The value of the index was normalised with the average of year 2000, i.e., the average index value in 2000 is 100.
(A more detailed description of the methodology of FHB Index is also available.)

In the period of 11.5 years that is handled by the FHB Index, the domestic housing stock expanded continuously: the stock contained 4.04 million properties in 1998, and exceeded 4.3 million by 2009. During this period, housing prices quadrupled in Hungary, with the average annual price increase being 13.2 % between 1998 and 2009. Taking inflation into account, real values of housing have doubled over the time in question, increasing by an annual average of 6.2%. In the time interval examined by FHB Index, housing proved to be a definitively good investment, yielding more than most financial investments. FHB House Price Index peaked at 200.7 (2008 Q1), its most recent value (2009 Q2) is 183.4.

The FHB House Price Index 2000=100



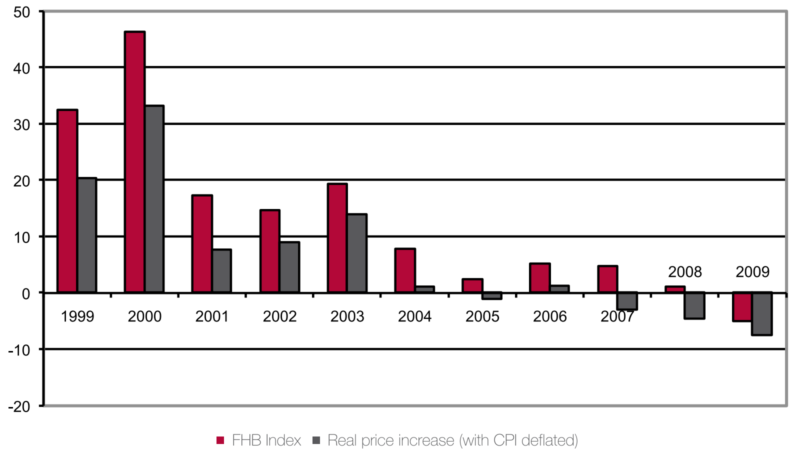
During the time period covered by the FHB House Price Index, the development of prices can be divided into four periods. In the first two periods lasting from 1998 until 2004, prices soared, while in the following two periods a more moderate rise in prices can first be seen, followed by a decrease in real values of properties.

I. In the first period (from 1998 until the end of 2000), prices rose steeply: by 132 % in three years, while they almost doubled in real terms. The temporarily checked price increase at the end of 2000 got a new boost from the introduction of the housing subsidy system.

II. In the second period between early 2001 and the end of 2003, the prices of properties also increased significantly, by 60% altogether (the increase in real values is 11% annually, on average). The index jumped 6% after stagnation in the 3rd quarter 2003, when expectations for a significant cut in subsidies advanced demand and pushed prices up.

III. At the beginning of the third period (2004-2008), reduced subsidies made their effects felt: the steepness of the price increase was broken at the end of 2003, resulting in a lower price increase for the upcoming years than previously (around 4%). Although national housing prices rose by 18% in this period, the real value of homes decreased in fact by 1% annually, due to the acceleration of inflation twice. The decline in real value began at the beginning of 2005, with smaller volatilities.

Yearly changes of the FHB Index, nominal and deflated with CPI



IV. FHB Index reaches the highest value of its history at 1st quarter 2008, which is the starting point of the decline in housing prices. Compared to the highest price level, national housing prices decreased by 8.6% in one single quarter. Although no such setback is seen in offer prices, the increase in the degree of price bargaining actually lowered transaction prices. During the past one and a half years, housing prices decreased by 1.4% on average quarterly, but they lost 9.5% of their real value on average.

It should be emphasised that the Hungarian developments between 1998-2009 represented by the FHB House Price Index coincide with the formation of the big foreign housing price bubbles only in terms of their timing. The FHB Index also shows that in Hungary, even in the years bringing stable growth, prices have not grown to the extent experienced elsewhere, as a consequence of which the decrease in Hungarian property prices between 2008-2009 is also much more modest than in other countries.

Please turn the page for a more detailed analysis of the housing market, the methodological guide and the subscription offer!

The development of house prices in the past decade in Hungary

In the period covered by the FHB House Price Index from the beginning of 1998 to the middle of 2009, housing prices in Hungary have quadrupled overall. This translates into an annual average increase in house prices over this period of 13.2%. If inflation is also taken into account, then the real value of homes as an asset has doubled over the period concerned since, on an annual average, homes have become some 6.2% more expensive than consumer goods in general. Based on all of the above, it can be stated that over the relatively long period examined here, homes have not merely easily retained their value, but have proven to be categorically good investments, surpassing the yield on the majority of financial investments.

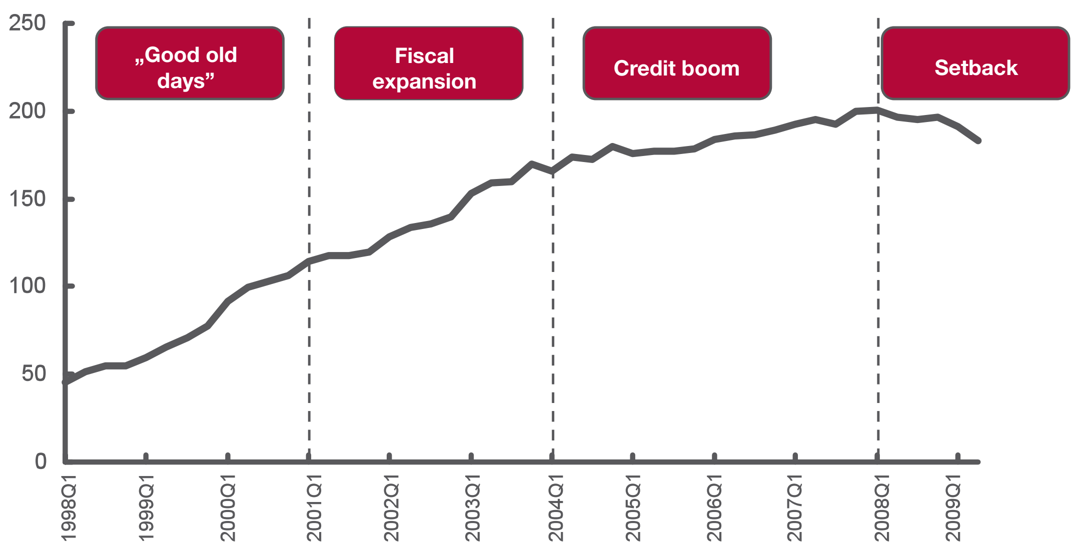
From the beginning of the 1990s, numerous and significant factors affecting the prices of homes impacted the Hungarian housing market. In examining developments on the housing market from the beginning of the index's coverage until the present day, four separate phases can be isolated from an analytical point of view. The first two phases, lasting up until 2004, resulted in a dynamic increase in prices, while the two phases since that point in time have first seen more modest price increases, followed by decline in the real value of homes.

Before analyzing the most important developments in the housing market over the aforementioned four phases, it is useful to understand the characteristics of the preceding period. From the beginning of the 1990s until 1997, the housing market was largely defined by the difficult economic circumstances of the regime transition and its consequences. No transparent information on the evolution of housing prices comparable to the FHB House Price Index is available with regard to the years preceding the period covered by the index. Following a major boom in construction, the Hungarian housing market entered a period of transition at the beginning of the 1990s, during which the dominant form of retail savings were housing assets. Data of the Central Statistics Office (KSH) show that a 35% decline in real values occurred in the first few years of the decade as a combined consequence of barely rising housing prices and soaring inflation. Up until the beginning of the index's coverage, housing prices lost approximately half of their value in real terms. In addition to the depressive effects of the macroeconomic environment on the value of the housing market, it can safely be said that during the seven years in question the privatization of government-owned housing also put the brakes on any increase in housing prices.

At the time of the regime change, the housing sector was characterized by a housing shortage, a considerable proportion of housing held by local governments, and the underdevelopment of the construction industry. During these years, a total of only 20-30,000 homes were built annually, far short of the 40,000 per year regarded as natural in the long term. The start of the 1990s saw the launch of significant privatization on the housing market as some half million municipality-owned homes were sold at affordable prices compared to incomes at the time, thus temporarily satisfying demand on the housing market for a few years despite the difficult macroeconomic situation. The privatization of housing contributed to the high proportion of home ownership in Hungary, which at 92% remains high by international comparisons to this day.

The four aforementioned phases that can be isolated based on the FHB House Price Index available from 1998 are characterized by different dynamics of supply and demand and varying rates of growth (Fig. 1). Detailed growth data for the individual periods can be seen in Fig. 2.

Fig. 1: FHB House Price Index 2000=100



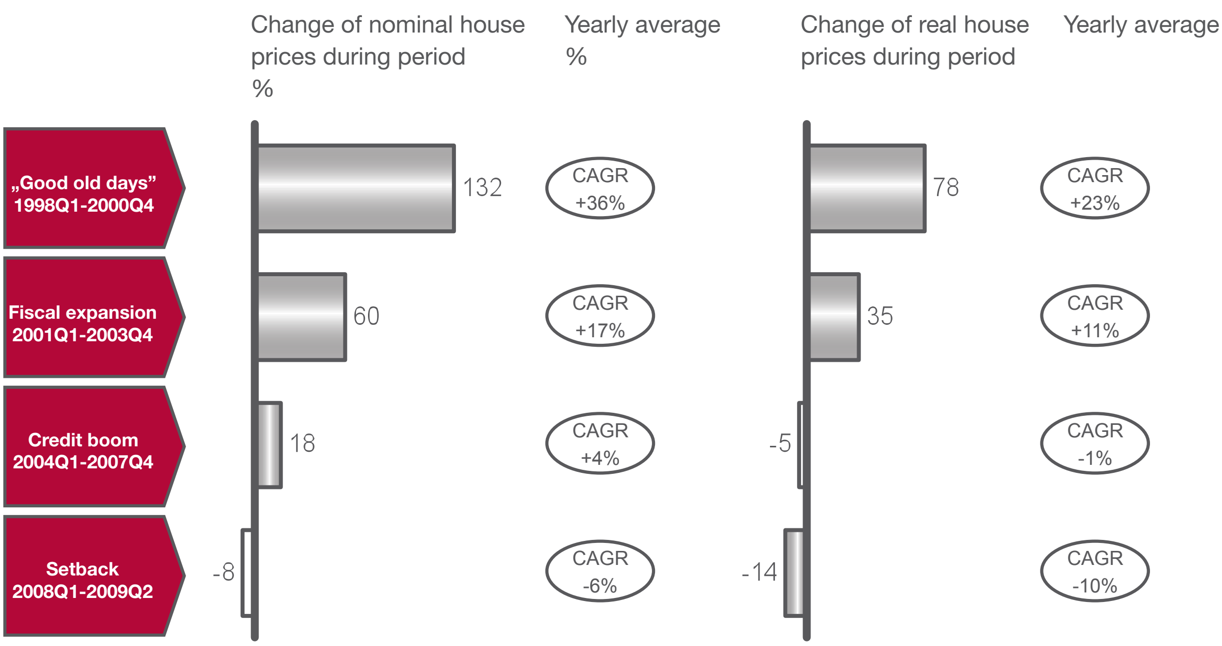
Phase 1: "Good old days"

The first phase, lasting from 1998 to the end of 2000, saw a steep rise in both nominal and real prices. Real estate prices increased by 132% over the three-year period in question, and almost doubled in real terms. Although continually growing demand at the end of the 1990s had not yet met with a corresponding level of supply, favourable expectations concerning the housing market and the preparation of a housing subsidy system fostered price increases. The macroeconomic situation also evolved very favourably during these years as the economy embarked on a steady growth trajectory. Disposable incomes of private individuals increased by 46% over this period.

It is interesting to recall that the amount of housing credit taken out at the time was negligible (Fig. 3), as a total of only HUF 53 billion in home loans migrated to the household sector over the entirety of the period concerned, while interest rates on loans were also relatively high at around 20%. In spite of this, an improving income trajectory and favourable future outlook stimulated demand on the housing market, faced with a supply that was waning in volume and becoming increasingly outdated in quality.

In the mid-1990s, in the few years following budgetary stabilization, the effects of declining demand were also felt on the housing market and the renascent inclination to invest initially appeared mainly on the equities markets. The turning point came with the Russian crisis of 1998 and the stock market crash, in the wake of which many investors sought opportunities on the housing market rather than on the bourse. According to data of the National Bank of Hungary (MNB), private individuals invested a total of HUF 108 billion in the stock market in the two years prior to the crash, while some HUF 160 billion was withdrawn from the value of equities in the five quarters following the crash. It is important to note that prior to the crisis, the macroeconomic environment had been developing favourably, with growing incomes and employment levels paving the way for an explosion in demand on the housing market. At the same time, however, supply was outdated and still fell well short of the standard required by demand.

Fig. 2: Development of housing prices, 1998-2009



The steep rise in housing prices is also partly explained by the still comparatively high, double-digit inflation that characterized Hungary at the end of the 1990s, as consumer prices rose more than 30% over the examined three-year period. Just as we saw at the start of the decade, citizens continued to favour putting their savings into tangible assets in a period of relatively high inflation.

Phase II: The period of fiscal expansion

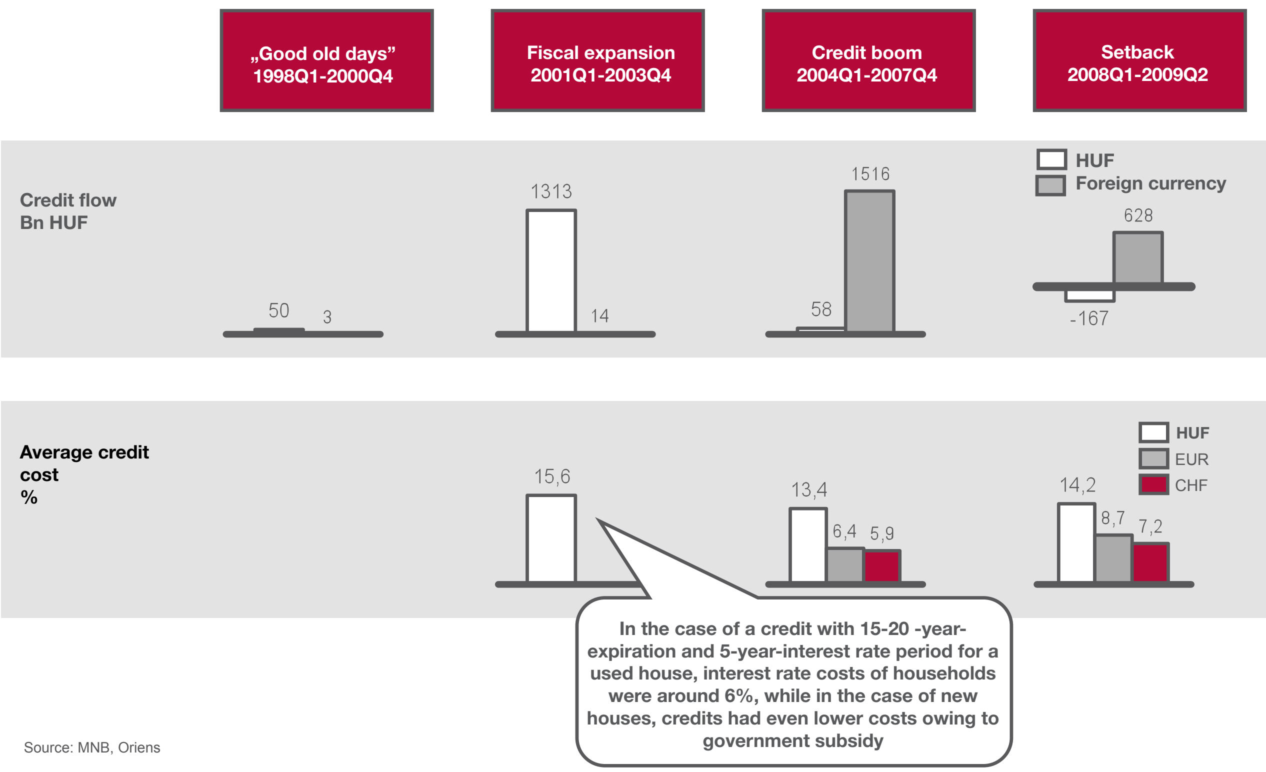
In the period from the beginning of 2001 to the end of 2003, housing prices continued to rise significantly, albeit more modestly than before, by a total of 60% over the period, representing an annual average increase in real value of 11%. The introduction of the housing subsidy system in 2001 provided fresh impetus to the development of the Hungarian housing market, following the temporary stalling of price increases at the end of 2000. Impacted by the introduction of subsidies, rates of interest on home loans fell substantially lower than market interest rates, thus making this new form of financing attainable to a broad swathe of the population. The launch of subsidies may also have influenced expectations on the supply side in the long run, as it was from this point on that a discernible expansion in supply occurred.

In tandem with the introduction of subsidies, a significant revitalization of the budget occurred from 2002, resulting in a combined 36% increase in household incomes over the three-year period, representing 15% growth in real terms. It can be seen in Fig. 3 that in addition to rising incomes, a large amount of external resources appeared in the sector on the credit side, in an amount of approximately HUF 430 billion annually. It is also worth noting that credit growth in these years was driven exclusively by forint loans with subsidized interest rates.

The continued boosting of demand through preferential lending then met with a revival on the supply side from 2001 onwards, with a substantial increase in the number of new homes built (Fig. 4). This period saw developers launch the first large-scale residential projects in all major cities in the country. On average over the period, a 50% increase in new homes was added to the housing market annually, amounting to an annual average of 31,703. The expansion of supply necessarily occurred only gradually, and for this reason, prices continued to rise until the end of the period in question.

Other amendments to the system of subsidies occurring between 2001 and June 2003 continually eased the conditions for drawing on subsidies, expanding the options for utilizing credit and increasing the size of subsidies available. Among these changes, the most significant step was taken in March 2002, when subsidies were extended to include used homes. The effect that the introduction and expansion of subsidies had on driving prices up can be easily traced in the evolution of the FHB House Price Index. However, the generous subsidy system had already placed an unsustainable burden on the budget by 2003, when the first tightening measures were taken, the effect of which began to be felt on the development of housing prices.

Fig. 3: Evolution of home loans and associated costs



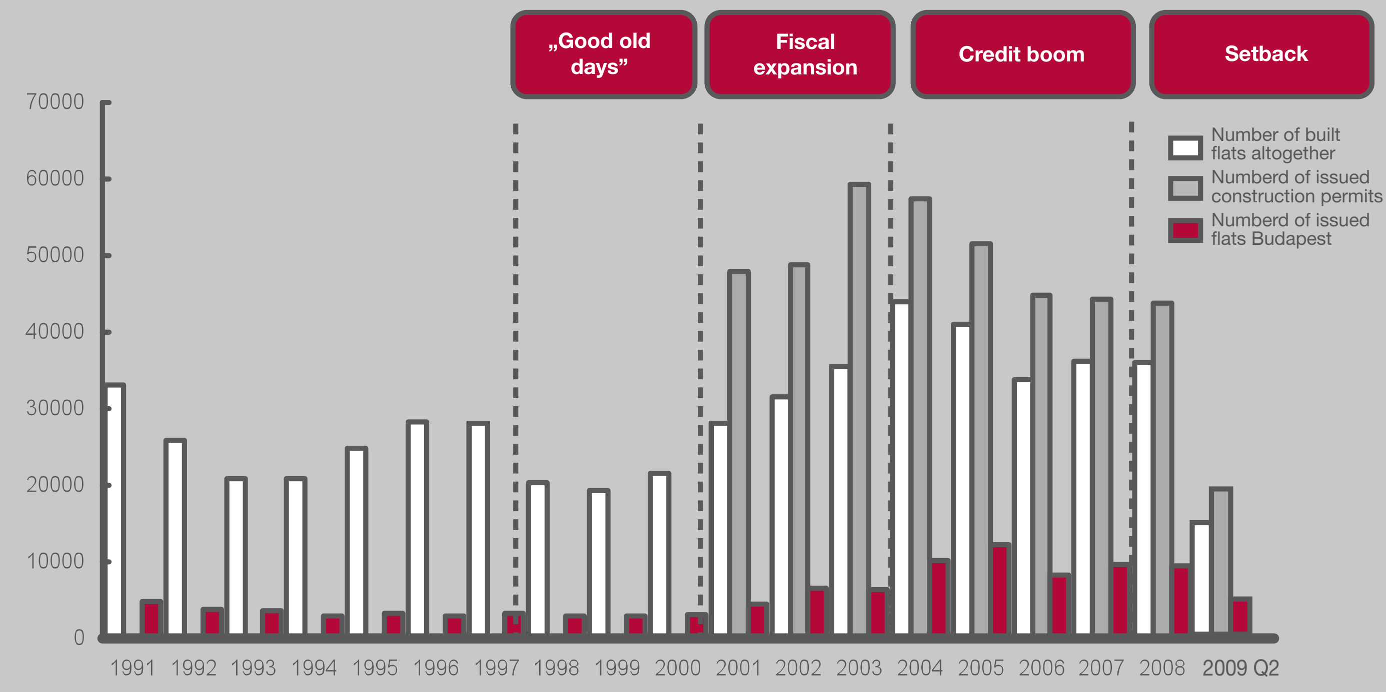
Source: MNB, Oriens

Phase III: The credit boom period

The tightening of the subsidy system made its effects felt immediately on housing prices as the steep rise in prices was checked at the end of 2003. The next few years would be characterized by a considerably more modest annual rate of growth of around 4%, as price increases merely kept pace with – and subsequently fell short of – the rate of inflation.

In many respects, this was to prove to be a period of contradictions, replete with inconsistencies and impacts that cancelled one another out. It is true that housing prices across the nation increased by a further 18% over this period, and that it was really due to the accumulation of the budget deficit that the value of homes decreased annually by 1% in real terms on average over this four-year period, alongside spikes in inflation on two occasions (at the beginning of 2004 and the end of 2006). The decline in real values began in smaller fluctuations from the beginning of 2005; however, the majority of households, suffering the "money illusion" of being unable to distinguish nominal from real values, scarcely perceived this depreciation at the time, and even if they did, then presumably they did not believe it to be a long-term effect.

Fig. 4: Housing construction in Hungary



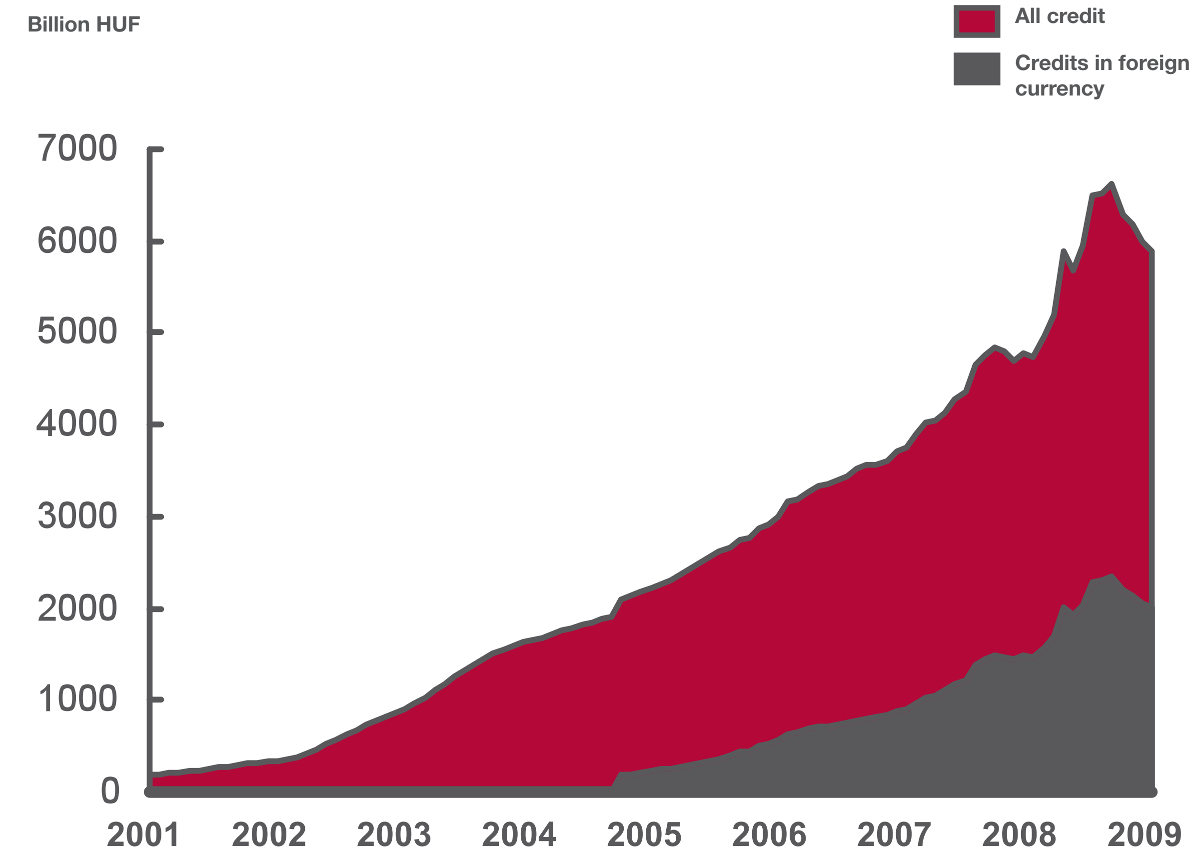
Source: Hungarian Central Statistical Ofiice

Despite the tightening of conditions for subsidies, competition for lending was still able to sustain demand for a number of years, with a similar amount of loans disbursed annually compared to the preceding period. Once subsidies were terminated, lower-interest forex loans became popular and households began to run up debts in foreign currency. Fig. 3 clearly demonstrates that from 2004, an increasing proportion of home loans were originally denominated in foreign currencies. At the same time, towards the end of the period in question a growing proportion - more than 50% of mortgage loans in 2007 - were freely usable mortgage equity loans. This clearly demonstrates that private individuals were using a decreasing portion of their borrowed financial resources for the purchase of homes, and an increasing portion for spending on consumer goods or redeeming more expensive loans taken out earlier, which in turn also tended to indirectly stimulate consumption.

The tightening of the subsidy system naturally had its effect on the supply side as well, as the number of issued building permits began to decline from 2004 (Fig. 4). Certain delayed effects, however, meant that the supply of new homes still continued to expand, by an annual average of 38,755 over this period.

While incomes increased by barely 1% annually over the period, the abundant supply of credit sustained demand, and consequently housing prices did not begin to fall until the beginning of 2008. Classic macroeconomic factors seemingly no longer supported a further rise in housing prices at this time, but the copious supply of credit at the global level concealed these effects. Partly as a result of this, and as a consequence of the concomitant global boom on the housing market (see text in box on international housing market trends), massive foreign demand appeared in Hungary, and particularly in Budapest. In addition to the mainly German and Austrian investors who had already arrived in earlier years, this period saw the appearance of British, Irish, Spanish, and finally, Russian investors. The foreign demand that emerged on the Hungarian market for the most part took the form of purchases for investment purposes, and no small proportion of the profits previously realized on other markets (Ireland, the UK, Spain, Portugal) now made their way to Hungary.

Fig. 5: Stock of household mortgage loans



Source Hungarian National Bank

In order to satisfy this partly speculative demand, the number of completed new homes – following a transitional decline – increased again slightly in 2007 and 2008. A long period of rising prices looked set to be broken at the end of 2007, when the factors regarded as the most important from the point of view of the housing market suddenly began to align in the same direction: supply became saturated, demand fell, disposable incomes levelled out and then declined, and more and more news arrived indicating that the great real estate boom abroad had come to a standstill.

In the meantime, however, factors on the cost side kept housing (house) prices at the same level. On the one hand, construction costs increased significantly as stricter regulations forced developers to render previously invisible cost elements transparent. And on the other hand during this period, particularly at the outset, an inherent tendency of migration from the larger cities into the suburbs became perceptible, a movement of the population which increased demand for building plots and drove up the prices of these plots. Experts believe that the rise in prices of building plots was an important factor in explaining the increase, and subsequent downward rigidity, in residential real estate prices.

International overview

The period covered by the FHB House Price Index is also interesting in terms of the international housing market because it coincides with the formation of one of the largest real estate bubbles to occur thus far among the world's developed economies, the consequences of which are still discernible today

Development of housing prices, nominal price index, 2002=100 (Figure 6)

Source: Financial Times FT nominal house price index

In most OECD countries, the past two decades have seen housing prices increase to an unusual degree. The diagram here clearly shows that in some countries (e.g. Ireland, the UK) price increases had taken on dramatic proportions since the beginning of the 1990s, and although certain housing markets did not see such dynamic price rises, average nominal housing prices across Europe increased by some 50% over the past six years.

In parallel with rising housing prices, there was a substantial rise in the disposable incomes of households and an increasing prevalence of home loans. Incomes in the Eurozone more than doubled over the past 18 years, while the stock of household home loans rose 2.5-fold in the light of a substantial easing of borrowing conditions. The growth in the stock of loans was accompanied by a significant decline in long-term interest rates.

These factors, however, only partly explain the wave of price increases that started in 1990. Examining data of the preceding years, we can state that the cycle of price increases that began at the beginning of the 1990s differs significantly in several respects from cycles of housing price increases in earlier periods:

1. The extent and duration of the price increases: Until the beginning of the 1990s, regular cycles could be discerned in the evolution of housing prices. These periods of rising prices lasted some six years on average and generally brought a 45% rise in prices. Such periods would then be followed by a correction phase, lasting five years on average and bringing a 25% fall in prices. Accordingly, housing prices showed an overall tendency to rise over the long term. The housing price increases that began in many countries at the beginning of the 1990s, however, were substantially greater and lasted more than twice as long as the increases regularly observed in earlier cycles of rising prices.

2. The connection to the general cycle of boom and bust: Long-term data shows that general economic cycles of prosperity and recession and the evolution of prices on the housing market moved in tandem. Aggregate real housing prices and the key indices of successive economic cycles clearly moved in parallel in the OECD countries between 1970 and 2000. Since 2000, however, increases in housing prices no longer moved in parallel with the performance of the economy, as the two have taken noticeably different directions.

3. The global nature of the price increases: Since the end of the 1990s, increases in housing prices in various parts of the world have appeared more closely aligned than ever before. The suspicion is strong that the general decline in interest rates

and the substantial expansion in the supply of credit due to financial innovations may have played an important role in this development.

In light of recent developments in the housing market, we might ask whether homes were overvalued in the period of price increases that lasted until 2008. The question arises because, based purely on traditional econometric models which trace the evolution of housing prices back to fundamental economic factors (disposable income, interest rates, quantitative demographic changes, the available supply of housing), it can be stated that in the vast majority of the countries concerned, homes were not intrinsically overvalued and prices tended to move in keeping with the dynamics of supply and demand. At the same time, it is also true that measures of affordability significantly surpassed the average values of previous years in most countries, while price-to-rent ratios were noticeably higher before the bursting of the bubble.

Based on the aforementioned indicators and the market processes that have since been observed, one can hardly deny that residential real estate markets in many countries became overheated in the past decade. With this in mind, the decline in housing prices that has since begun is scarcely a surprising development. Experience shows that a sustained rise in housing prices is often followed by a sustained decline.

Of the total 37 periods of appreciable price increases observed in all of the OECD countries combined between 1970 and 2000, some 24 concluded with real housing prices working off at least 30% following the peak, and in some cases more than 100%, of the earlier increase.

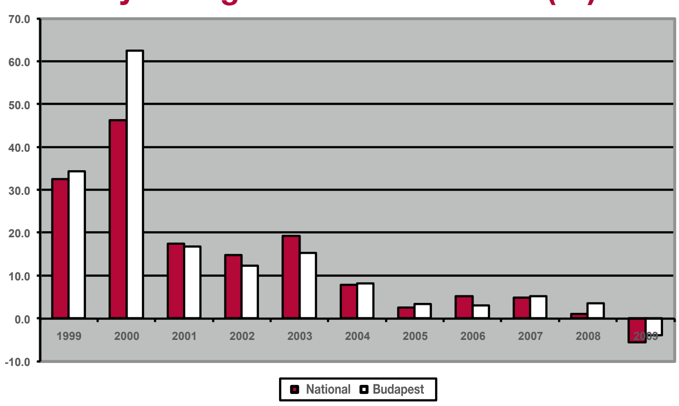
Phase IV: Setback

In the period examined by the FHB House Price Index thus far, the maximum value was recorded in the first quarter of 2008, from which point onwards housing prices have begun to fall off. Compared to the highest price level measured at this time, nationwide prices were some 8.6% lower in the second quarter of the current year. It should be added that the deterioration in housing prices occurred in parallel with lower turnover than previously, which can be explained not so much by a decline in the number of completed new homes but rather by the decreasing turnover of used homes. The aforementioned evolution of prices is explained by a number of processes, of which we regard the following to be the most important:

The real value of private individuals' disposable income declined by 3% in the examined period, which was projected as a result of the enforced stabilization of the budget in 2007 and the unfavourable developments on foreign housing markets that had a detrimental effect on Hungarian housing prices. From the third quarter of 2008, the credit supply dwindled to a minimum while conditions for available loans deteriorated considerably and interest rates increased. The conspicuous appearance of macrofinancial risks may understandably have reduced demand for homes. Interested parties in the housing sector (developers, estate agents, financers, buyers) were united in their opinion that foreign demand had essentially disappeared from the market.

The composition and quality of the supply of new homes appearing on the market in the preceding period and at the beginning of 2008 shifted in a direction that did not really support a further increase in prices. Particularly in Budapest, developers began to build increasingly large housing estates, and the quality of homes also shifted towards the functionally minimal and lower-quality end of the scale. The supply of these new homes presumably did not meet with a matching segment of demand comparable with that which had earlier sought out liveable homes. Although a significant fall in offered prices has not been experienced, the supply of relatively new used homes put up for sale by the first owner has noticeably grown, while the extent of price bargaining has doubled, driving down transaction prices. This phenomenon reinforces the suspicion that a not insignificant number of people, having previously overstretched their budgets, have quickly put the homes they purchased only recently up for sale on the used home market.

Yearly changes in the FHB Index (%)



Due to income difficulties arising as a consequence of the ongoing crisis and the worsening of financial conditions, rental prices have not increased; for this reason, the market in rental accommodations has become more dynamic than before, indicating that most potential home buyers presently prefer to rent rather than to purchase accommodations. As a consequence of all the above, housing prices have fallen by 1.4% on average each quarter over the past one and a half years, losing 9.5% of their real value on annual average. We believe it is important to note that the modest decline in housing prices occurred in parallel with considerably lower turnover than previously

The methodological background of the FHB House Price Index

The FHB House Price Index measures the development of Hungarian residential real estate prices. The index is published quarterly, and starts from the first quarter of 1998. Quarterly disclosures will contain data from the previous quarter. The first publication in October of 2009 contains 46 data points, the last of which applies to the second quarter of 2009. The value of the index is normalised with the average for the year 2000, i.e. the average index value in 2000 is 100. The index is based on actual buying and selling transaction data of residential real estate, and was prepared by processing such data from more than 800,000 residential properties located in over 3,000 municipalities from 1998 onwards. The sources of data include the records of FHB itself, as well as a database purchased from APEH, the national tax authority (and from stamp duty offices before 2008).

As not every single property is sold in every quarter, our observations – even if the transaction data are complete - necessarily relate to a restricted sample of the real estate stock, and the sample is not representative. In such cases, the development of simple indicators (average-, median price) is affected by the type of properties transacted in the given period, i.e., by the composition of the sample. When computing the FHB House Price Index, we manage this so-called 'composition effect' using the hedonic method, which is widely used in the professional literature. The composition effect arises mostly from changes in the regional distribution - if, for instance, there were more transactions in Budapest in one certain period as compared to other periods - and the hedonic method corrects for these. The trends of simpler indicators and the FHB House Price Index calculated with the hedonic method are similar, they share the same conclusions in the long term. It can be noted, however, that in the shorter term, the simpler indicators have greater volatility, while the index produced with the regression method has a smoother curve, i.e., changes in the composition of sold properties may have a role in short-term volatilities, but these are filtered out by the hedonic method. Thus the hedonic method is more appropriate in demonstrating fundamental processes.

Because the majority of the data sourced from APEH arrives at least half a year after the transaction takes place, sometimes even years following the transactions, we recalculate the values of the index for those periods and these may therefore be subject to subsequent modification.

A more detailed description of the methodology of the FHB House Price Index is available at www.fhbindex.hu

FHB House Price Index

Quarter	Index value*
1998Q1	45,63
1998Q2	51,18
1998Q3	54,75
1998Q4	54,96
1999Q1	59,31
1999Q2	65,75
1999Q3	70,98
1999Q4	77,54
2000Q1	91,71
2000Q2	99,45
2000Q3	102,87
2000Q4	105,97
2001Q1	114,04
2001Q2	117,72
2001Q3	117,58
2001Q4	119,84
2002Q1	128,49
2002Q2	133,80
2002Q3	135,78
2002Q4	139,89
2003Q1	153,01
2003Q2	159,14
2003Q3	160,01
2003Q4	169,51
2004Q1	166,08
2004Q2	173,65
2004Q3	172,29
2004Q4	179,87
2005Q1	175,61
2005Q2	177,04
2005Q3	177,35
2005Q4	178,70
2006Q1	183,94
2006Q2	185,73
2006Q3	186,59
2006Q4	189,07
2007Q1	192,82
2007Q2	195,19
2007Q3	192,83
2007Q4	200,03
2008Q1	200,70
2008Q2	196,37
2008Q3	195,40
2008Q4	196,56
2009Q1	191,12
2009Q2	183,39

*The value of the index was normalised with the average for the year 2000: in 2000, the average index value is 100

Ordering the FHB House Price Index

In the future, the FHB House Price Index will be published every quarter. We will present the current development of the index and discuss the recent market events which influence it at public information sessions. This information will be public, while the expanded package will be accessible only through subscription. Expanding the national index to the larger domestic cities might currently be an appropriate base, which will also contain the two most significant property types in addition to territorial data. The most valuable advantage of our "Basic package", however, will be the prognosis. To facilitate economic decision-making for our subscribers, we will prepare a forecast for the housing market for 2010, making our service unique in the country.

For those customers who are interested in a special segment of the market, we will undertake the preparation of unique research products as a supplement to the Basic package after agreeing on individual needs. This may be done with greater specification than the Basic package both in terms of time range and territorial limitations, possibly regarding property type as well. We recommend ordering "Special packages" for those of our business partners who require results and information differing from the standard because of their field of business or interests. Of course, these packages will also contain a forecast for the upcoming year. Both types of packages may be ordered on a one-time basis, but we offer the option of yearly subscriptions with a discount. Our products are primarily prepared in Hungarian to serve the needs of domestic subscribers; an English version is also available.

Introductory price:

- **Basic package: EUR 1100 + VAT / occasion; 15% allowance for yearly subscription**
- **Special package:** individually priced

If interested, please contact our colleagues at the address on the order form. Orders may be placed in person or by post. Please provide your exact contact data to ensure trouble-free communication.

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