

1998q1	45.6
1998q2	51.2
1998q3	54.8
1998q4	55.0
1999q1	59.3
1999q2	65.8
1999q3	71.0
1999q4	77.5
2000q1	91.7
2000q2	99.5
2000q3	102.9
2000q4	106.0
2001q1	114.0
2001q2	117.7
2001q3	117.6
2001q4	119.8
2002q1	128.5
2002q2	133.8
2002q3	135.8
2002q4	139.9
2003q1	153.0
2003q2	157.1
2003q3	160.0
2003q4	169.5
2004q1	166.1
2004q2	173.7
2004q3	172.3
2004q4	179.9
2005q1	175.6
2005q2	177.0
2005q3	177.4
2005q4	178.7
2006q1	183.9
2006q2	185.7
2006q3	186.6
2006q4	189.1
2007q1	192.8
2007q2	195.2
2007q3	192.8
2007q4	200.0
2008q1	200.7
2008q2	196.4
2008q3	195.4
2008q4	196.6
2009q1	191.1
2009q2	195.1
2009q3	179.1
2009q4	174.3
2010q1	177.6
2010q2	176.3
2010q3	173.1
2010q4	174.5
2011q1	174.7
2011q2	172.4
2011q3	170.6

FHB House Price Index in the third quarter of 2011

FHB House Price Index in the third quarter of 2011 and the special market segment of the First Home Buyers

1. FHB House Price Index

House prices have slightly declined in 2011

According to the data of FHB Index, house prices in **2011 have slightly declined compared to the same period of the previous year.** In the third quarter of 2011, house prices fell by only 1.5% in average (4.6% in real terms) compared to the same period of 2010. It is important to note, however, that the drying-up of the housing market affects the information content of selling prices. In producing the latest index, we relied on FHB's market information and observations, as well as all data processed by Stamp Duty Offices until September, 2011. On the basis of the newly obtained data, we also adjusted our results for the first half of 2011. (For the evolution of FHB Index during its whole period see *Chart 1.*)

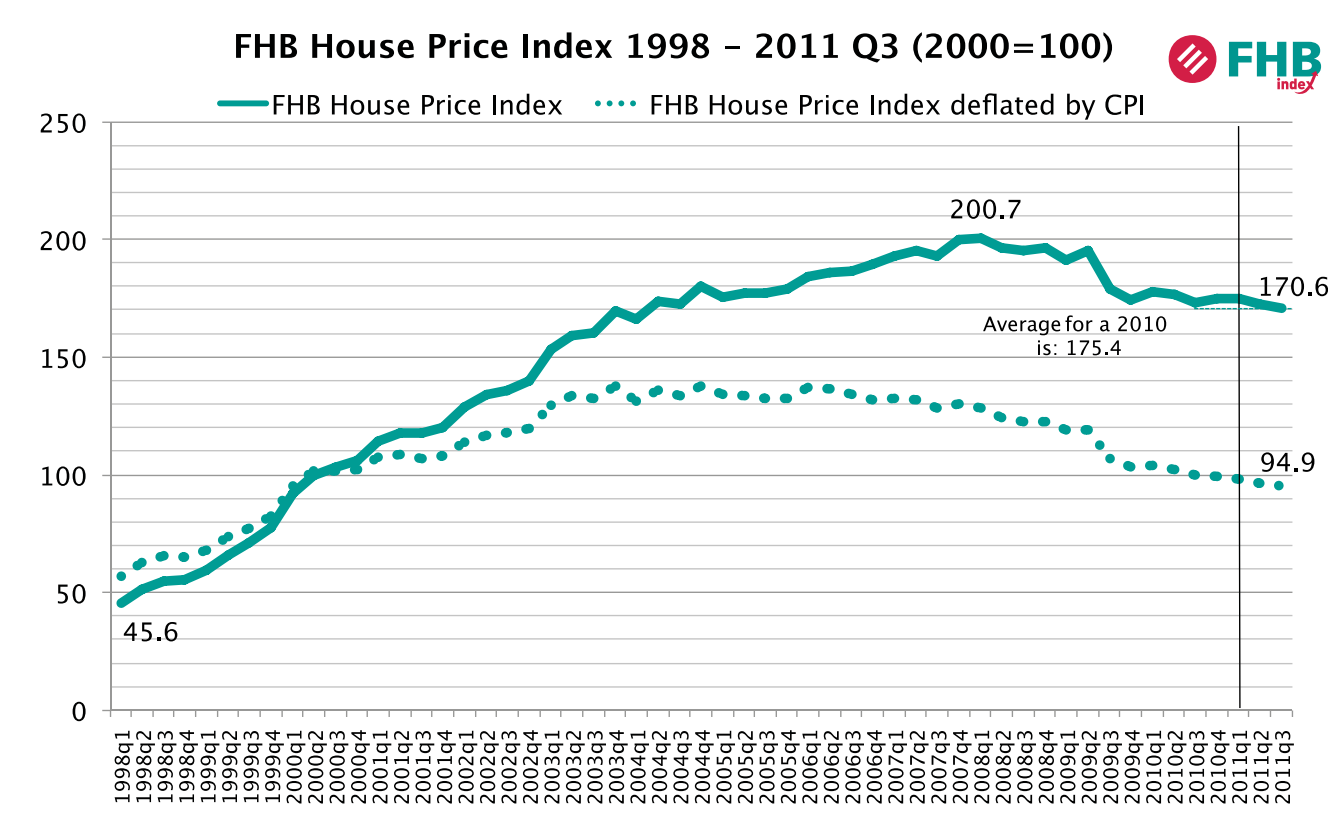


Chart 1: The evolution of FHB House Price Index (Source: FHB)

The values of FHB House Price Index from the third quarter of 2010:

2010 q3: 173.1 2010 q4: 174.5 2011 q1: 174.7 2011 q2: 172.4 2011 q3: 170.6

According to the latest data of FHB Index, house prices in Hungary have showed an average decline of 1.5% in 2011 compared to 2010 (see *Chart 2*), which means a 4.6% drop in real terms. The decrease was smaller than in the previous year (from 2009 to 2010).

The prognosis of FHB Index forecasted a nominal increase in prices for 2011. The level of house prices is somewhat lower than we expected, which can partly be attributed to the current macroeconomic and financial conditions that are worse than expected at the beginning of the year. The governmental measures announced since have also affected the domestic housing market negatively.

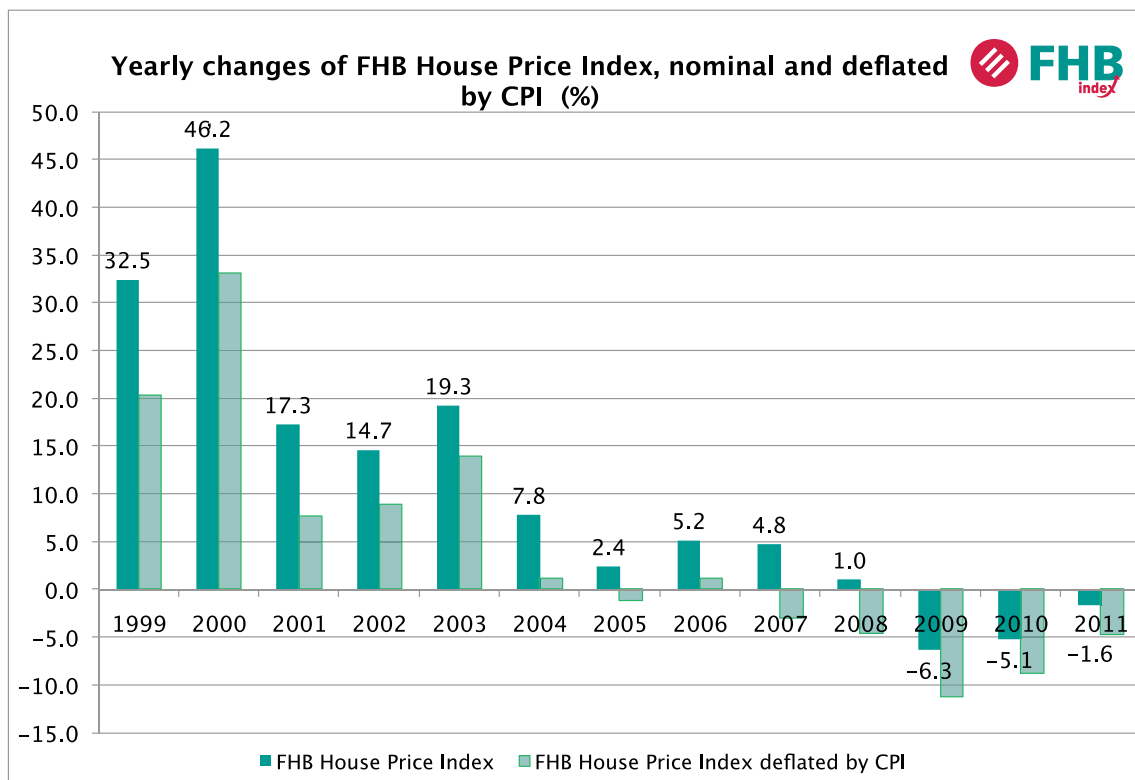


Chart 2: Yearly changes of FHB House Price Index (Source: FHB)

The four periods of FHB Index

The evolution of FHB Index can be divided into four periods as seen on Chart 3. The tendency of house prices can be clearly distinguished of each period. During the period called 'Good old days' (between 1998 and 2001), prices increased by 132% due to an upswing of demand, contributing to a significant growth in real terms, too. In the period of 'Fiscal expansion' (2001-2003), prices were ascending by a more moderate rate in spite of the housing subsidies, although the price growth was still considerable 60% in nominal and 35% in real terms. The growth turned into a decline during the periods of 'Credit boom' and 'Setback'; by the third quarter of 2011 **prices dropped by 15% in nominal and 27% in real terms compared to the pre-crisis period.**

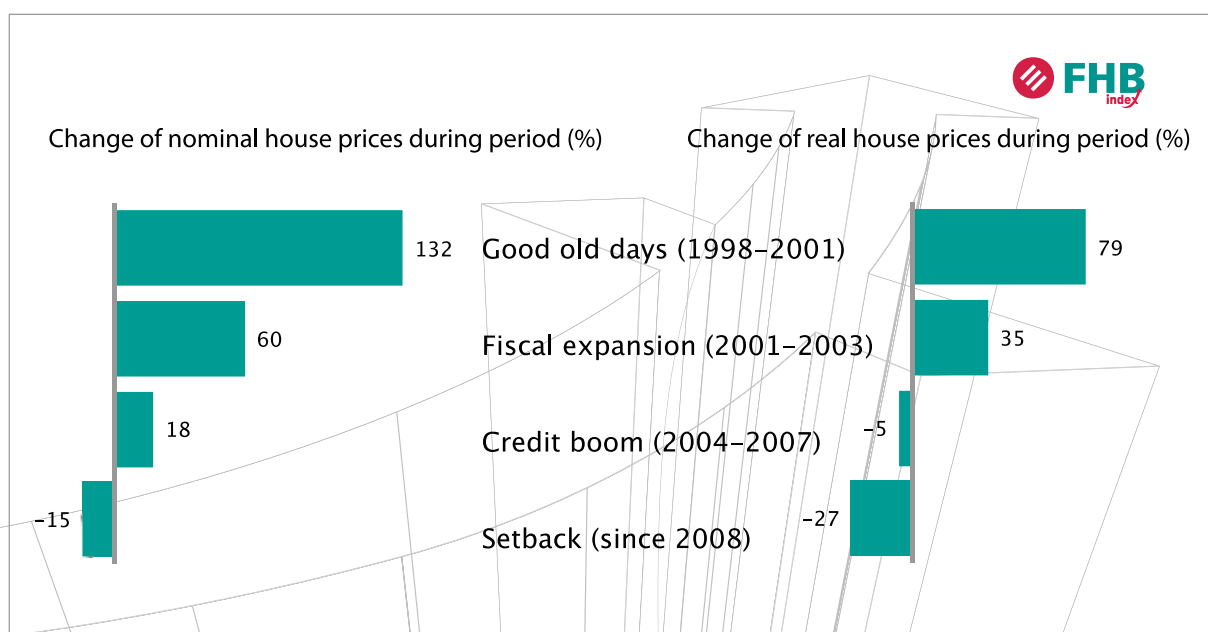


Chart 3: The four periods of FHB Index

2. Review of the housing market

Turnover hits its lowest point in the last decade

Housing market turnover, as we have expected before, is stagnating at a low level. Chart 4 shows that since 2006, the number of transactions has been decreasing; the 91 thousand sales in 2010 barely reach one third of the highest level registered in 2003. This year's tendencies suggest that the turnover on the housing market will not be higher in 2011 either.

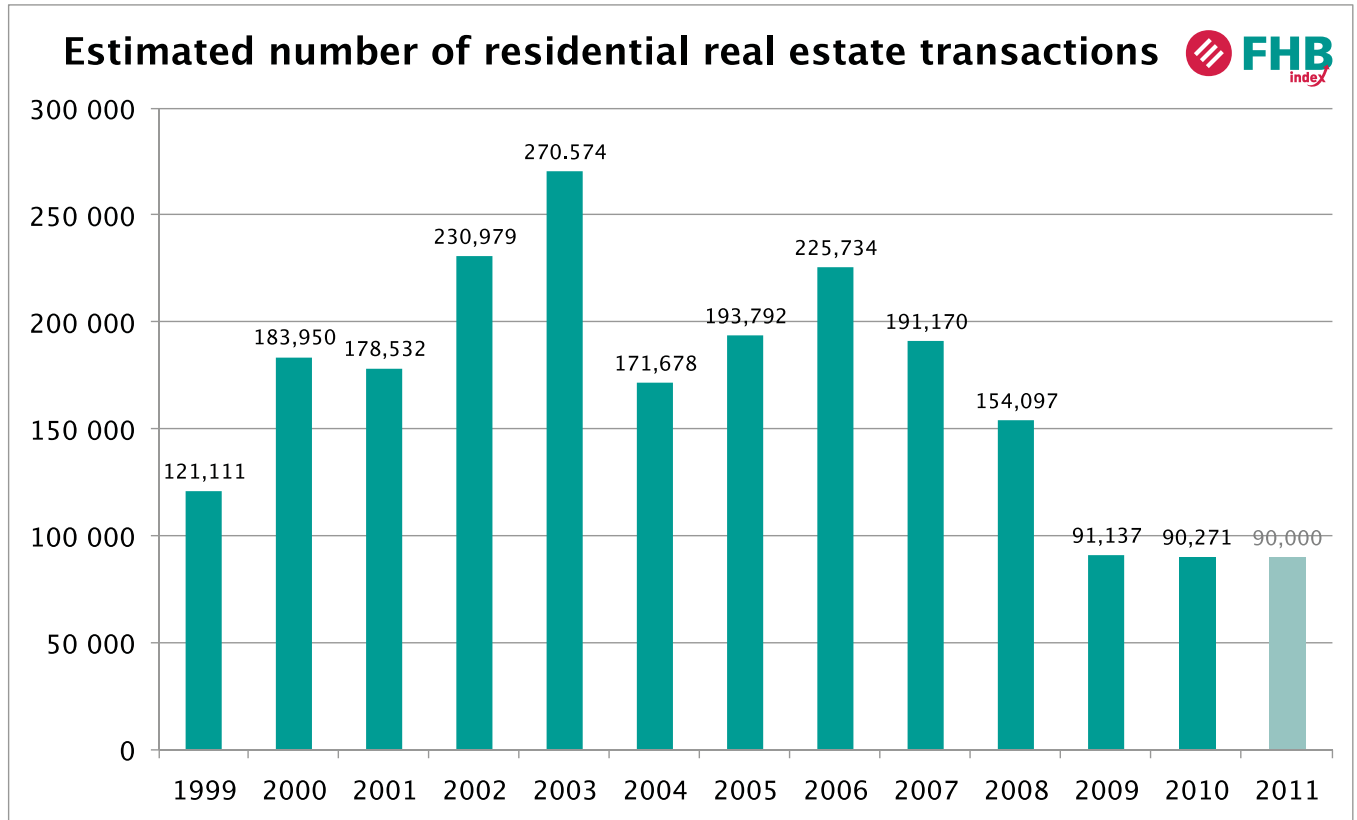


Chart 4: Estimated number of housing market transactions (Source: KSH and FHB)

Constraints on housing demand are still strong

Housing market demand is slackened by households' poor income and labour conditions setting strong constraints for the increase in the number of transactions. Employment rate is low, but it showed a fragile improvement in the first half of 2011 (Chart 5). Although also the real disposable income of households grew slightly this year (Chart 6), the constraint demand is not expected to loosen up significantly.

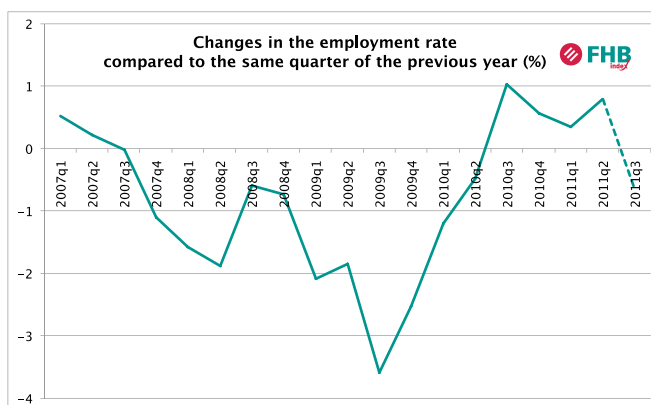


Chart 5: Changes in the employment rate (Source: KSH)

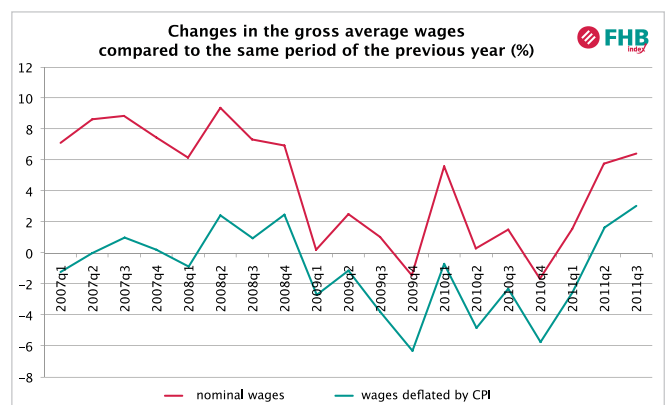


Chart 6: Changes in the gross wages (Source: KSH)

Further slackening of the credit market

Due to the strengthening of Swiss Franc, the outstanding amount of housing loans has slightly, but increased in 2011 compared to the same period of the previous year, in spite of the fact that **households' net debt position has been improving since the fourth quarter of 2009** owing to the significant amount of repayments (Chart 7).

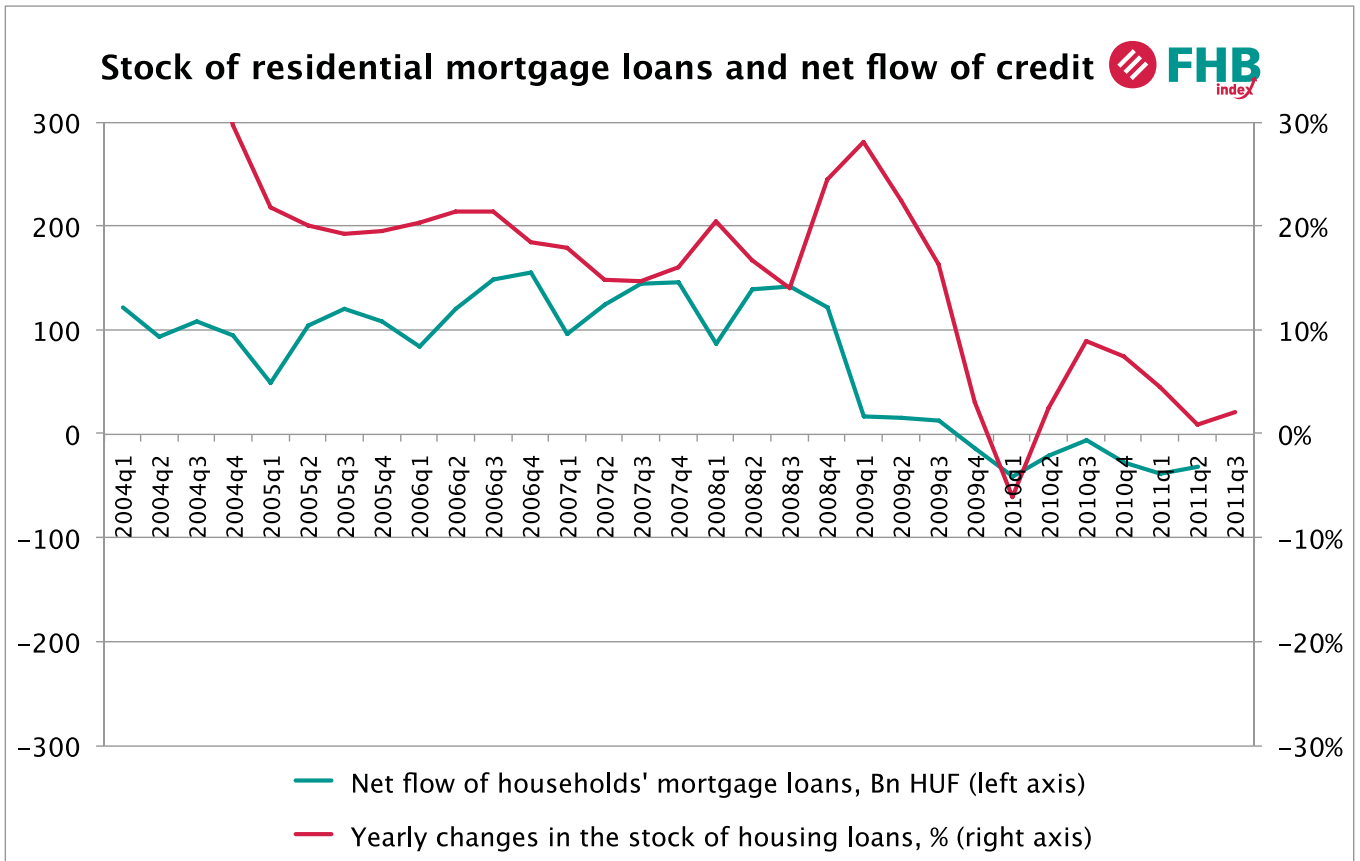
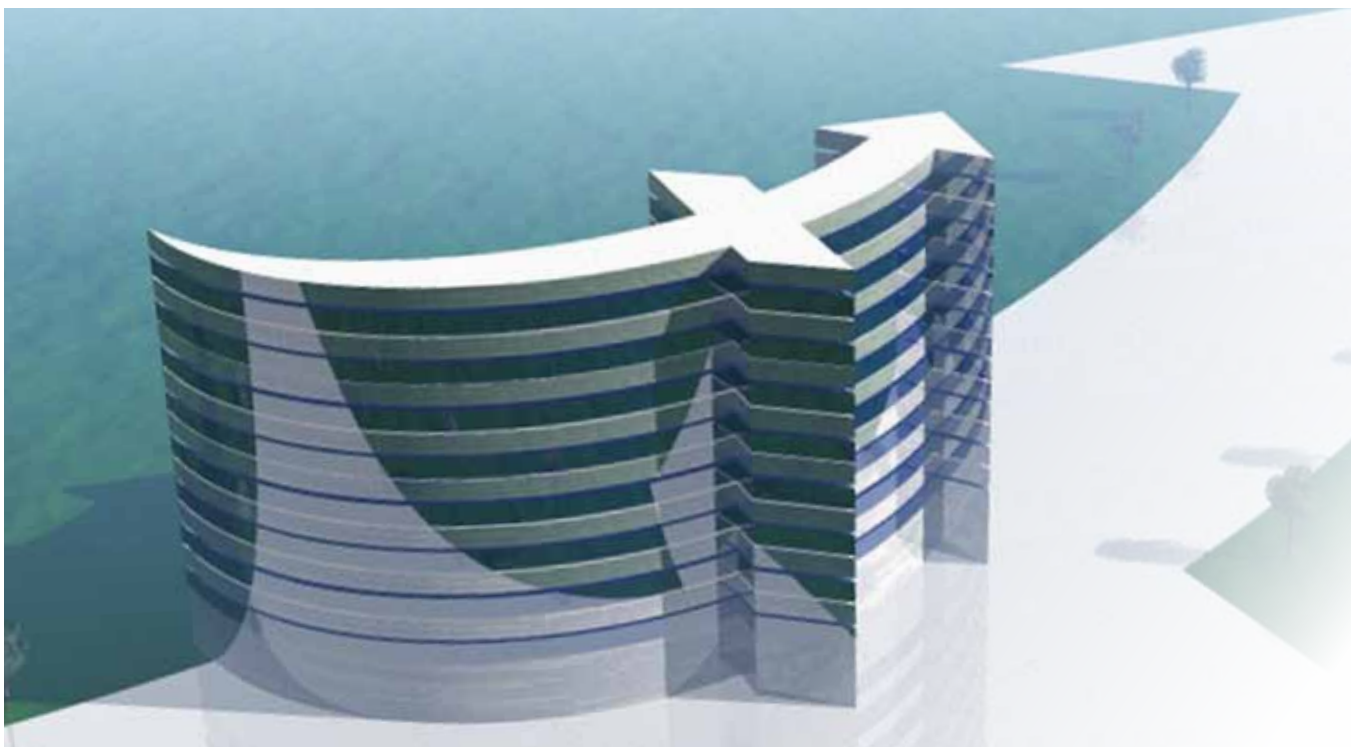


Chart 7: Stock of residential mortgage loans and net flow of credit (Source: MNB)



Supply of new housing units is drained

The number of new housing units in 2011 is merely a fragment of the highest level in 2004. Both the number of units built and the number of construction permits issued stayed below 10,000 in the first three quarters of 2011. This is **even lower than the level observed in 2010 (Chart 8)**. **The number of units built has dropped to historical lows in 2011:** according to the Hungarian Central Statistical Office (KSH) the number of occupation permits has not been so low in Hungary ever since the years of 1930

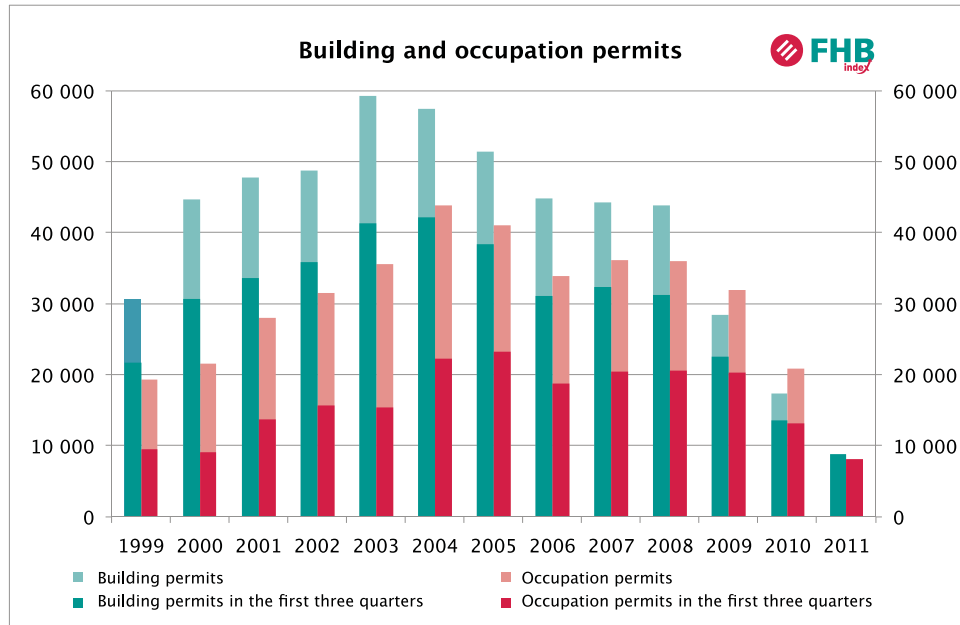


Chart 8: Number of building and occupation permits in Hungary (Source: KSH)

Unfortunately, recent data brought no surprise. Chart 9 presents that the number of building permits pushed forward by three quarters more or less projects the number of occupation permits in the given quarter. This suggests that in the next 2-3 quarters, new constructions will be at their lowest; the first three quarters of 2011 put together do not make up the number of permits issued in a single quarter between 2000 and 2008 (taking any quarter of the period).

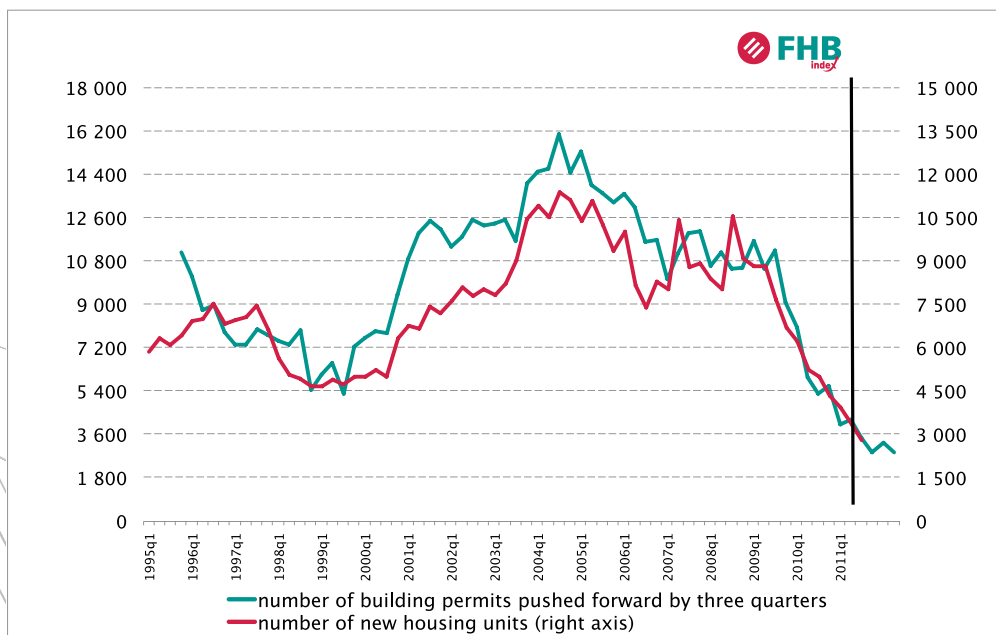


Chart 9: Projection of the number of new housing units (Source: KSH, seasonally adjusted data)

3. First Home Buyers

FHB pays special attention to the situation of **First Home Buyers**. This segment is highly important for the whole of the housing market, as they provide most of the net housing demand – FHB, as ‘the Bank of the Family’, offers specialized products and services to them. By the end of this year, we will issue a special report on the situation of First Home Buyers; in the current paper we give an overlook of the preliminary results of our research.

The decision for the purchase of the first home is highly influenced by the economic situation, by households’ outlooks for income, by lending conditions, but also by the extent of the subsidy scheme. This group gains when house prices are lower or inflation wanes – if inflation is permanently low, fixed instalments mean more stable burden for households. The rate of inflation has considerably decreased in the last 10 years, and the drop in housing prices also benefits first home buyers. The group’s typical purchase price lay at **HUF 10.1 Million in 2011**, which is **6.3 times more** than the average yearly income after taxes. This means, that people now have significantly better conditions to buy their first homes, than a decade ago, when the price of a typical first home equalled 9 years of salary in average (*Chart 10*).

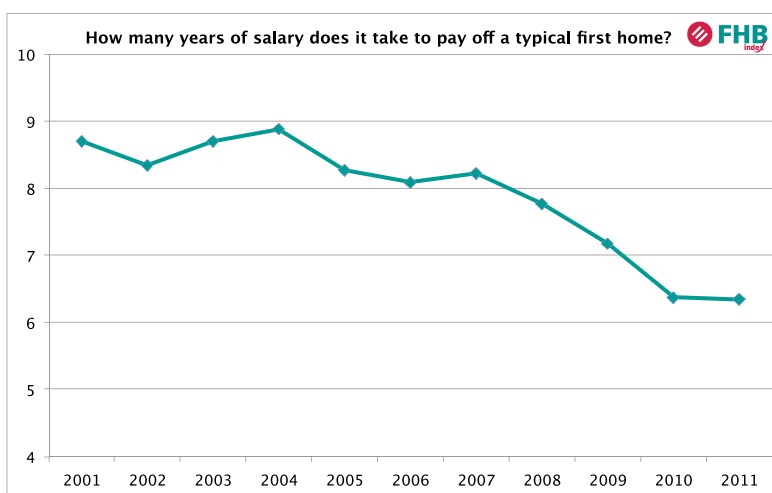


Chart 10: How many years of salary does it take to pay off a typical first home? (FHB calculation based on FHB and KSH data)

At the same time, the situation for the first home buyers is now more difficult, on the one side because housing subsidies have been tightened due the budgetary problems of Hungary (*Chart 11*), on the other side because companies have held back new hirings, which affected young people the most, raising unemployment rate among the 20-30 year-olds even higher than among the rest of the population (*Chart 12*).

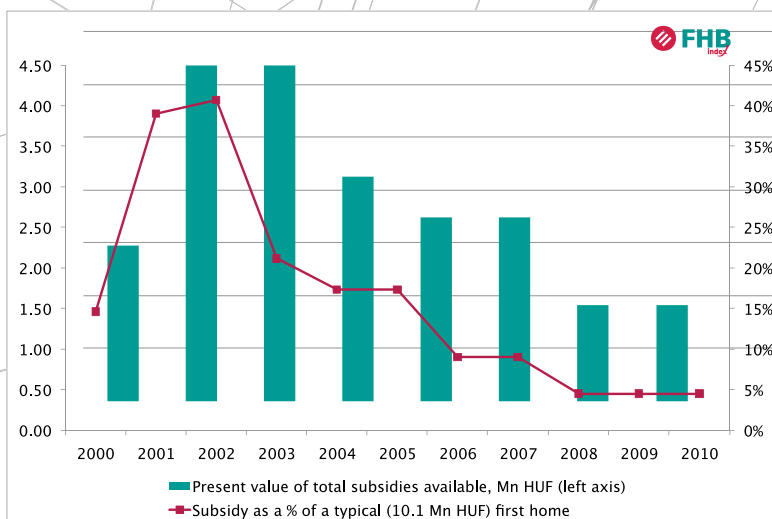


Chart 11: Amount of new subsidies available

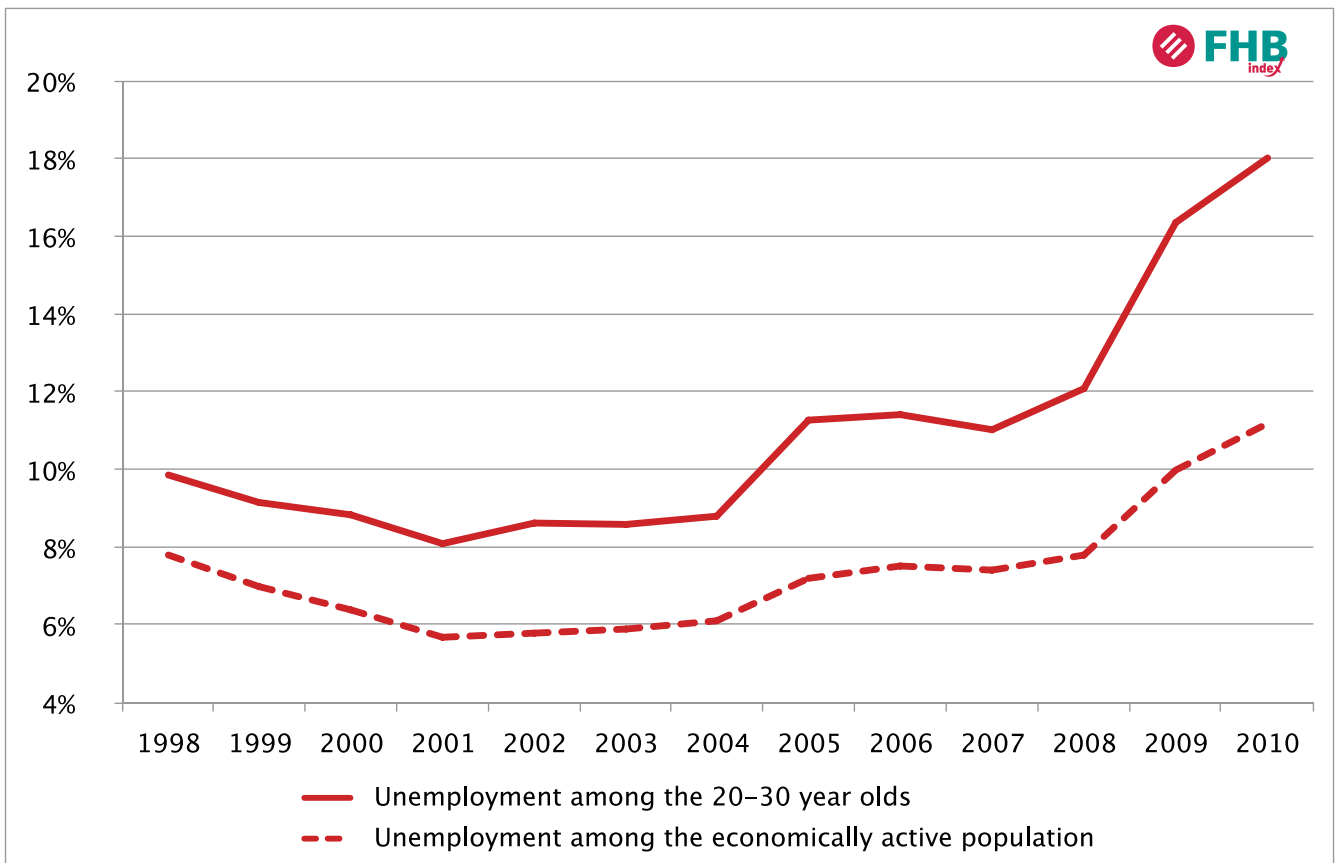


Chart 12: Unemployment rate (Source: KSH)

On the following spider web chart, we present the **FHB First Home Topography** (Chart 13). Deteriorating income expectations and the lack of subsidies pose the strongest obstacles for first home buyers, while lending conditions and house prices have improved since 2002 – owing to the established institutional system of lending and falling housing prices.

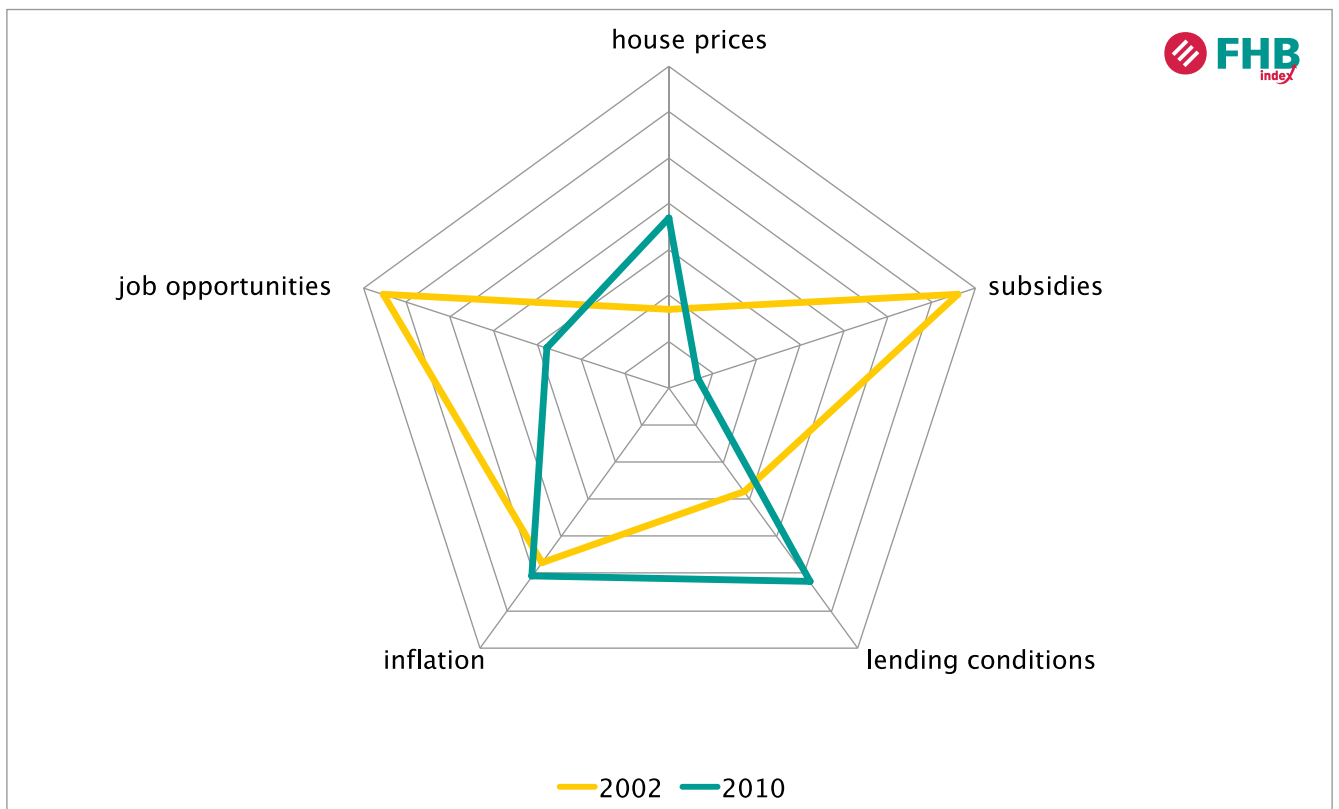


Chart 13: First Home Topography

Dear Reader,

Allow us to introduce you the services FHB Index offers.

FHB House Price Index is published quarterly. Before its introduction, no other product of this kind was available in the Hungarian market – being distinctive in terms of the measured time intervals and the quality of the underlying data, as well as its methodological foundations conforming to international expectations. Since the introduction of FHB Index in 2009, MNB (Hungarian National Bank) and RICS (The Royal Institute of Chartered Surveyors) have been referring to it as a featured housing market indicator.

Updates for FHB House Price Prognosis are published regularly. The methodology behind the model lies on three pillars:

I. On the basis of international and local experience, we have identified relations between selected Hungarian macroeconomic indicators, money-market and credit market indices, transactional data of the housing market and housing prices. (We base our view of the development of the macroeconomic and financial environment primarily on the projections of the Hungarian National Bank.)

II. FHB Banking Group has been one of the major actors of Hungarian housing market financiers for over a decade. Our operations cover the entire country, and we have access to information from the most significant real estate appraisers, which is complemented by FHB Real Estate Ltd's own professional experience. Our forecasts, therefore, include processed and verified local assessments as well.

III. With respect to the economic crisis, we shall not disregard empirical facts gained from analyses of similar depressions that have affected real estate prices so far. We have, therefore, included the international experience obtained from similar crises in our model.

FHB House Price Prognosis is now an important reference tool for people interested in the Hungarian housing market.

Our database covering the entire country and the methodological development of FHB Index make FHB able to provide help to the financial sector to fulfil the collateral re-valuation obligations under Basel II (Government Decree No 196/2007 on the Management of Credit Risk and the Calculation of Credit Risk Capital Requirement). We are proud that our service has already been ordered by a number of Hungarian banks, subsidiaries of big international financial institutions. The banks will need to comply with the strict regulations in the future too, it is, therefore, useful to apply the procedure that conforms to international standards and can also be supported by documented methodology if required by authorities. For the implementation of the modern, internal valuation methodology, it is preferable to use a model that is based on transactional data and documented methodology whereby efficient and mass re-valuation becomes possible. By using this model, credit risk capital requirement can be reduced substantially, excess capital can thus be freed. FHB Mortgage Bank

year	Index value
1998q1	45.6
1998q2	51.2
1998q3	54.8
1998q4	55.0
1999q1	59.3
1999q2	65.8
1999q3	71.0
1999q4	77.5
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2000q4	106.0
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2002q1	128.5
2002q2	133.8
2002q3	135.8
2002q4	139.9
2003q1	153.0
2003q2	159.1
2003q3	160.0
2003q4	169.5
2004q1	166.1
2004q2	173.7
2004q3	172.3
2004q4	179.9
2005q1	175.6
2005q2	177.0
2005q3	177.4
2005q4	178.7
2006q1	183.9
2006q2	185.7
2006q3	186.6
2006q4	189.1
2007q1	192.8
2007q2	195.2
2007q3	192.8
2007q4	200.0
2008q1	200.7
2008q2	196.4
2008q3	195.4
2008q4	196.6
2009q1	191.1
2009q2	195.1
2009q3	179.1
2009q4	174.3
2010q1	177.6
2010q2	176.3
2010q3	173.1
2010q4	174.5
2011q1	174.7
2011q2	172.4
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Plc. has been using the real estate monitoring procedure – that fulfils the requirements of the modern, internal valuation methodology – since 2008.

FHB also undertakes the preparation of unique research products on individual needs. In these, we offer local information on apartments and lots, more detailed explanation for the extent and dynamics of our prognosis, and the analysis of the risks surrounding the realization of the trends forecasted.

The next issue of FHB Index – including the complete data and analysis of 2011 – is scheduled to be published at the beginning of 2012. Meanwhile we are pleased to give customized offers or to respond to any inquiries

Zsolt Molnár
Deputy Chief Executive Officer
FHB Real Estate Ltd.
Directorate of Real Estate Valuation
Phone: +36(1)452-9208
Fax: +36(1)329-0986
Mobile: +36(30)748-3913
E-mail: Molnar.Zsolt@fhb.hu

dr Gyula Nagy
Head of FHB Index Project
1082 Budapest, Üllői út.48.
Phone: +36(1)452-5930
Mobile: +36(30)964 6087
E-mail: Nagy.Gyula@fhb.hu

FHB House Price Index
URL: www.fhbindex.com
E-mail: fhbindex@fhb.hu
Direct line: +36(1) 452-7999

