

Buying Guide

Why buy property in Hungary?

Since the fall of communism, Hungary has blossomed, transforming itself politically and economically. It is now a democratic republic with a strong, stable economy, and a member of the European Union.

Having been part of the Ottoman, Habsburg and Austro-Hungarian Empires, the country has a fascinating and multi-layered cultural legacy of extraordinary richness. This, combined with the availability of low-cost flights from the UK to the capital, Budapest, has led to a boom in tourism and the resulting inevitable emergence of an international property market.

We hope this guide will help you decide whether to research Hungary's property market in more detail. There are many resources to help you, including television and radio programmes, magazines, the internet, property exhibitions, and estate agents in both the UK and Hungary.

The hungarian property market

As the result of a housing boom between 2000 and 2003, when property prices in Budapest increased by up to 60 per cent, early bird investors have done well. However, those who have not already bought need not fear they have missed the boat; Hungary's economy is stable, houses are still cheap by UK standards, and there is still believed to be great potential for growth.

Naturally, there are huge variations in property prices between different parts of the country. The most expensive areas in Hungary are Budapest and the surrounding regions, and Lake Balaton. Cheaper properties can be found in eastern Hungary, and in small towns and villages.

Budapest's rental market is year-round. Yields are currently between 7 and 10 per cent.

Popular locations: an overview

Because of Hungary's communist past, tourism has been slow to develop, and a traditional way of life, virtually unchanged over centuries, is still the norm in rural areas, which, as a result, are largely untouched by the international property market.

However, the capital, Budapest, with its vibrant cultural and social scene, is now popular with tourists, especially for short breaks. A history of wars and invasions has created today's Budapest, a city that is both cosmopolitan and characteristically Hungarian.

Budapest and the surrounding area are home to more than a quarter of Hungary's population and the majority of its expatriates. The latter are employed mainly by foreign diplomatic missions and overseas companies. The Lake Balaton area is growing in popularity.

At a glance

Currency

Forint (HUF). Current exchange rate: HUF328.54 = £1.00 sterling

Cost of living

- Loaf of bread: from £0.40
- Bottle of wine: from £1.00

Time

An hour ahead of GMT (two hours from the last Sunday in March to the last Sunday in October)

Standard business hours

- Offices: 9:00 am to 5:00 pm, Monday to Friday. Some close early on Fridays
- Banks: 8:00 am to 4:00 pm, Monday to Friday, and 8:30 am to 11:30 am on Saturdays in some cases
- Shops: 10:00 am to 6:00 pm, Monday to Friday, and 9:00 am to 1:00 pm on Saturdays. Some shopping centres are open on Sundays

Population

Approximately 10.5 million

Languages

The official language is Hungarian. German is widely spoken, and English is used in business

Religions

Roman Catholic: 68 per cent
Calvinist: 20 per cent
Lutheran: 5 per cent
Other/no religion: 7 per cent

Driving

Driving is on the right. To rent a car, drivers must be aged at least 21 (age may vary by car category) and have held a full licence for a minimum of a year. An International Driving Permit is compulsory for holders of old-style UK licences.

Average Property Prices

Three-bedroom house: £142,700 (Budapest)
Two-bedroom apartment: £97,300 (Budapest)

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Property in Budapest

Budapest was originally two cities, on either side of the Danube. Buda, the older, has cobbled streets, picturesque colour-washed houses and a mixture of medieval and neo-classical architecture. Pest, larger and busier, is Budapest's commercial heart. Designer boutiques, fine restaurants and luxury hotels line its broad, leafy boulevards.

Budapest boasts the lowest cost of living of any major European city, a fact that is reflected in property prices. The average cost of a two-bedroom apartment is HUF39,500,400 (approximately £97,300) and that of a three-bedroom house £57,900,600 (about £142,700), but there are wide variations, depending on area. Studio apartments start from HUF 11,700,600 (about £29,000).

Properties in Buda tend to be more expensive than those in Pest. The greatest capital appreciation is currently taking place in Pest.

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Lake Balaton

While Budapest offers the most significant property investment opportunities in Hungary, the Lake Balaton region is now attracting attention.

At 80 kilometres long, Lake Balaton, known as the Hungarian Sea, is Central Europe's largest lake and a popular holiday spot. During high season (from June until the end of August), average water temperature is 25 degrees Centigrade – ideal for swimming. Other water-based attractions include sailing, fishing and water sports. Walking is also popular, as is visiting the wineries on the north shore. The southern shore offers varied nightlife.

With Ryanair now running a service from Stansted to FlyBalaton Airport, interest looks set to grow. Property prices are increasing rapidly, but the average is still less than HUF13,700,150 (£33,974).

Buying a property in Hungary

In order to buy property in Hungary, foreign nationals (with the exception of EU citizens purchasing a property as their principal residence) must first obtain a permit, which can take up to two months.

Each purchaser is allowed to acquire only one property, unless buying through a Hungarian limited company. The advantage of doing this is that a significantly lower rate of tax will be payable when the property is sold.

To safeguard your interests, appoint an independent legal representative fluent in both Hungarian and English. He/she must ensure that your chosen property has good title (many title registrations are out of date – a legacy of the communist era), and, particularly in the case of a new build, has been constructed legally.



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The property purchase process

Once a price has been agreed, a deposit (usually 10 per cent) is payable. The property is then reserved while the purchaser obtains permission to buy. During this time, the purchaser's lawyer begins the title searches. Providing the results are satisfactory, a purchase agreement is signed by vendor and purchaser. The agreement is then forwarded to the Land Registry for registration transfer, a process that can take up to six months.

In the meantime, completion takes place and the balance of the purchase price is paid. However, not until the registration transfer is complete does the change of ownership become official.

You should allow around 10 per cent of the purchase price to cover transaction fees, stamp duty, property taxes and legal costs.

Financing your purchase

When working out how to finance your purchase, consider all the options. Paying cash, if you can afford to, is often recommended, but you may not want to tie up a relatively large sum in this way.

The other options are remortgaging your UK home or arranging a mortgage on your Hungarian property through a UK or Hungarian lender. Remortgaging offers the easiest solution. Releasing equity in a UK home means that the second home can be purchased for cash, without the need for another mortgage. However, this may only be feasible for those who own their first home outright.

Several UK mortgage providers will lend funds of up to 80 per cent of the purchase price for second home purchase over, typically, a 15-year term.

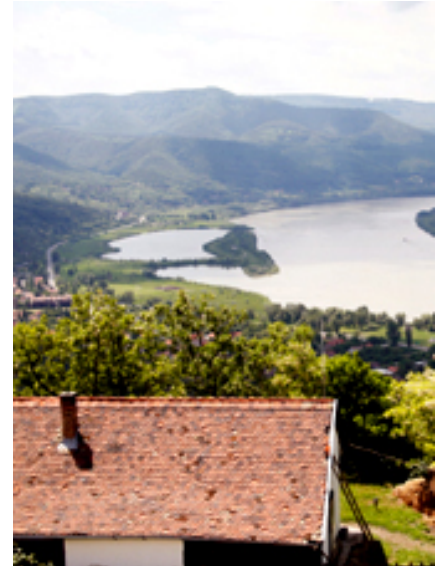
Getting a mortgage in Hungary

Mortgages are available to foreign purchasers in pounds sterling, euros or forint. Proof of income is almost always required. The maximum loan is usually 70 per cent of the property's value, and the maximum term 20 years. A lender's fee of 1 per cent of the mortgage amount is payable on completion, and a further 1 per cent per year is added to the interest rate.

If you are considering a mortgage in a foreign currency, ensure you seek expert advice. For example, euro mortgages, which are tied to the rate set by the European Central Bank (ECB), currently lower than the Bank of England base rate, may seem an attractive option. However, because of the volatility of the currency markets, you could get your fingers burned.

Taxation

The UK and Hungary have signed a double taxation treaty, so tax is payable in one or other country, not both. All foreign nationals living and working in Hungary are required to register as taxpayers there.



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Hungary has a progressive personal taxation system; rates for 2006 are 18–36 per cent.

Interest payments are tax-free, and there is no wealth tax. Capital gains tax is levied at 25 per cent. Rental income is taxed at 25 per cent, with no deductions for outgoings. Inheritance tax of from 2.5 per cent to 21 per cent is levied on Hungarians inheriting assets and foreign citizens inheriting Hungarian assets.

Pensions are not taxed, whether they are paid in Hungary or from abroad.

Personal taxation: non-residents

Foreign nationals living and/or working in Hungary on a temporary basis are taxed solely on their Hungary-sourced income and gains.

Personal taxation: residents

Those who are permanently resident in Hungary are taxed on worldwide income and gains. Criteria used to define permanent residence for taxation purposes include the location of the usual family place of residence, property ownership and whether the taxpayer spends more than 183 days per calendar year in Hungary.

Anyone with overseas-sourced income is required to make advance payments of tax and to complete a tax return at the end of the financial year.

Local taxes

Local government offices are responsible for the collection of local rates. Annual property taxes amount to approximately 3 per cent.

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Money matters

Hungary's currency is the forint (HUF). The current exchange rate is HUF405.73 = £1.00 sterling.

Banks, bureaux de change and ATMs are available in towns and cities throughout Hungary. Standard banking hours are 8:00 am to 4:00 pm, Monday to Friday, and 8:30 am to 11:30 am on Saturdays in some cases.

Major credit cards are widely accepted in hotels, restaurants and larger shops, but many smaller shops insist on cash. Travellers' cheques are generally regarded with suspicion.

Import of currency in amounts sufficient to fund a property purchase must be declared, and currency export is restricted.



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Anyone considering moving money overseas should consult a financial adviser or foreign exchange risk expert, who can advise on ways of reducing currency fluctuation risks.

Passports, visas and residency

Passports and visas

British citizens must have a passport to enter Hungary. A visa is not required. Those intending to stay for more than 90 days must register with the appropriate authorities.

Proof of identity must be produced if requested by the police, so visitors should carry their passports at all times.

Residency

Foreign nationals wishing to apply for residency must do so within 15 days of arriving in Hungary. The process can take around six months. However, directors of Hungarian companies (see Buying a Property) do not need residence permits.

Permit holders are required to notify the authorities of their place of residence within three days of moving in, and to inform them of any subsequent change of address.

Hungary's economy

Despite global conditions, Hungary's economy is growing at around 4 per cent per annum. Unemployment is now about 7.5 per cent, and inflation below 6 per cent. Nearly 90 per cent of GDP is now generated by the private sector, compared with only 10 per cent in the early 1990s.

Hungary has a greater skills base than most of its neighbours, and a strong focus on structural investment. Exports have risen steadily since 1993, and more than 75 per cent of trade is now with the EU. Hungary plans to join the euro in 2010, but must first reduce its budget deficit.

Over 500 UK companies, including Tesco and Vodafone, have a presence in Hungary. BAA bought Ferihegy airport in December 2005.

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Communications

Telephone

Hungary's telecommunications market has now been privatised, and offers a choice of service providers. The phone system is mainly digital, and services are efficient.

The international access code for Hungary is 36. The outgoing code is 00 followed by the relevant country code (for example, 0044 for the United Kingdom).



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Mobile phone ownership is extremely high, and calling costs relatively low. The three local service providers, Pannon, T-Mobile and Vodafone, use GSM networks and have roaming agreements with most international providers.

Internet

Access to Internet services, available via a number of ISPs, is good and reasonably priced. Larger towns have Internet cafés.

Post

The Hungarian postal service is reliable, but tends to be slow.

And finally ...

Buying a property abroad is a major decision, and one that should not be taken lightly. First, decide what you want from your property (which will vary according to how you intend to use it), and then do as much research as possible, including visiting your chosen destination at different times of year. Don't forget to investigate the availability of flights as well as the price, and don't be tempted to exceed your budget. Never sign any document until you are satisfied that you fully understand what you are committing yourself to.

Individual circumstances will vary widely, so it is essential to obtain professional advice and guidance tailored to your particular situation, especially in areas such as property purchase, potential rental returns, taxation and mortgages.

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