



MINISTRY
FOR NATIONAL ECONOMY

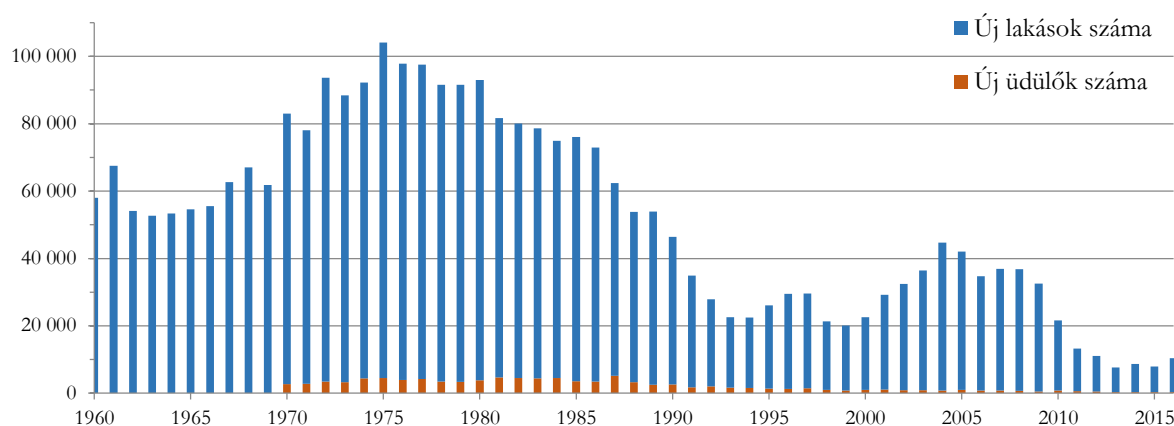
Hungary's housing boom expected to continue in 2017

According to data published by the Hungarian Central Statistical Office (KSH) at the end of February, the housing market boom which began in 2015 is set to continue in 2017. The number of dwellings completed in 2016 was up by 31 percent compared to 2015, and the combined number of building permits and declarations was more than two-and-a-half times higher than that of 2015. The dynamic growth in dwelling constructions may add as much as 0.4-0.5 percent to Hungary's GDP, but dwelling construction costs are also predicted to rise further.

In 2016, the number of newly built dwellings increased by 31 percent in comparison to 2015, to 9 994 (KSH, 2017). The combined number of building permits issued and construction declarations registered was once again above the 30 thousand mark last year -- for the first time since 2009. This figure is two-and-a-half times higher than that of 2015, and in light of declarations submitted and permits issued, the upward trend is set to continue in 2017.

Taking a look at long-term data reveals that in the past 50 years the number of newly build dwellings and holiday houses has fallen to one-tenth of the original figure (Fig.1). While in 1961 and 1968 the number of newly built residential property units was more than 67 thousand, the indicator even exceeded the 100 thousand mark in the boom years between 1972 and 1980 (in 1975, for example, 99 588 new dwellings and 4 525 new holiday houses were registered, according to the KSH). As of 1985, the number of new dwellings fell below 70 thousand per year, and in 1993 it was only marginally above 20 thousand. A short revival was observed in 1996-1997, after that in the period beginning in 2001 and ending with the crisis year of 2008, the number of dwelling construction projects rose again dynamically, averaging 36 thousand units completed each year. The subsequent regression lasted until 2014-2015, and currently data signal the beginning of yet another upward trend.

Fig. 1: Number of newly built dwellings since 1960 (and that of holiday houses since 1970)



Source: Hungarian Central Statistical Office (KSH)

Parallel to the construction boom, **the total stock of housing loans has also risen significantly**: in the first half of 2016 the stock totalled HUF 2 953bn (EUR 9.52bn), constituting 8.7 percent of GDP, which figure is some two-and-a-half times higher than that of H1 2015.

According to a recent report released by the National Bank of Hungary (MNB), the total value of loans for housing purposes has hit HUF 442bn (EUR 1.42bn) at the end of 2016, up by 27 percent over the year 2016, on top of a 50 percent increase registered in 2014-2015. As a result of the forint conversion of forex loans in 2014, the share of forex debt was less than 2 percent within the total amount.

In 2016, the largest increases in the number of newly built dwellings continued to be registered in cities: the corresponding figure for Budapest and large cities was 44 percent and 20 percent, respectively, compared to 2015.

Villages saw growth of 11.3 percent. Some 60 percent of new building permits were issued for projects in Budapest, county seats and cities with country rights. The expected increase in newly built dwellings is predicted to add 0.4-0.5 percent to Hungary's GDP.

The housing market, which had stagnated after the crisis year of 2008, **received a major boost from regulatory changes in the construction sector and the introduction of the Family Housing Allowance (CSOK)** in 2015, which have had a favourable impact not only on newly built but also on used properties. The Government Decree 456/2015 (XII.29.) on *The simplified declaration of the building of dwellings and modifications on certain construction regulations* has brought a new attitude. Thanks to the Decree, it is no longer required to obtain a permit for the most frequent and usual types of renovation and construction works; this process has been replaced by a much

less bureaucratic procedure, the obligation to submit a simple declaration. As the next, long-awaited rationalization measure, Government Decrees 155 and 156/2016 (VI.13.) prescribe as of 1 July 2016 the new procedure for simple declarations, assisted by the National Construction Register, a fully automated on-line system.

The other step of probably even more weight was the introduction of the CSOK programme, which – once again after many years – offers grants for the renovation of used dwellings, and which has significantly improved the chances of families to purchase a newly built dwelling. Among the housing market consequences observed as a result of these measures was the steady growth in residential property prices in some sought-after city locations and regions, an increasingly marked trend that reflects labour force demand patterns. State grants, which are having an overall positive effect, may also lead to some negative outcomes in areas reacting sensitively to changes, as on the supply side not only purchasing prices but rental prices may also be lifted.

Since the introduction of CSOK, 40 500 applications for grants of HUF 101.4bn (EUR 327 million) have been received, which mainly request assistance for the purchasing of used homes. Only slightly more than one-fourth of applicants have asked for state grants, in the value of HUF 61.5bn (EUR 198 million), with the aim of purchasing a new home.

The MNB study on housing trends of 2015, published in May 2016, has already reported of a revival: the combined effect of the rising amount of households' disposable income driven by real wage growth, improving long-term labour market prospects, persistently low interest rates as well as diminishing exchange rate risks due to the forint conversion of forex loans has been favourable on the housing sector.

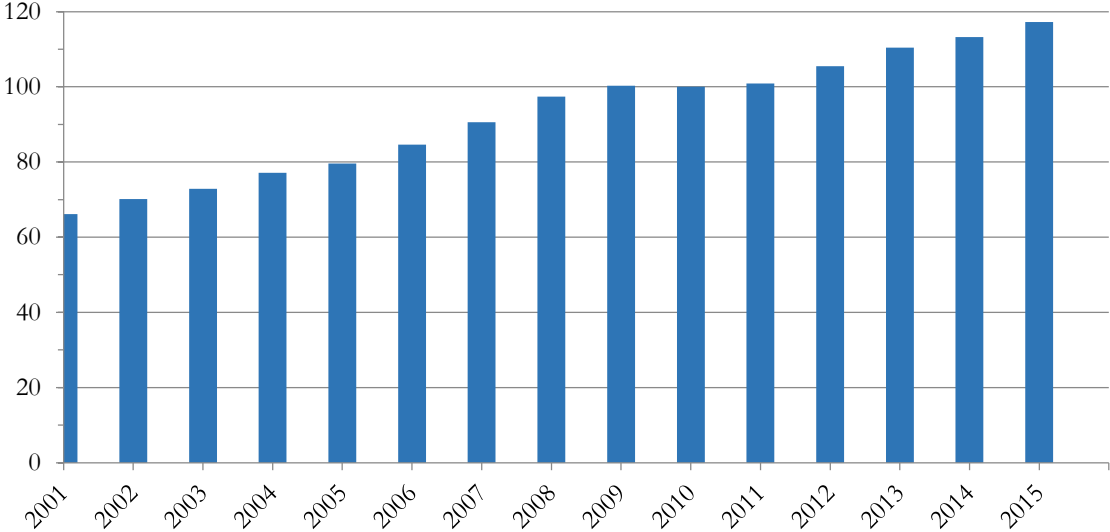
The upward trends have been slightly weakened by a number of factors though: internal migration which is causing population and housing demand growth in and around Budapest as well as in the north-western counties is also leading to falling demand in areas left behind. On the supply side of the housing market, the rising number of properties in foreclosure generated by non-performing mortgages, cautious bank lending and labour and occasional building material shortages within the construction sector are hindering a fully-fledged upward trend.

As far as regional demand growth is concerned, it increased markedly for used dwellings in Budapest and large cities, while in the case of new dwellings and smaller settlements there has been no substantial change. In the initial three quarters of 2015, the largest increase, some 16 percent, was observed in the price per square meter of used dwellings in Budapest, while the respective number of building permits rose by 30 percent. The fact that – contrary to trends -- the number of newly built dwellings has declined may be due to the anticipation of even better

conditions. Measures and regulatory changes introduced at the beginning of 2016 have had a significant impact on the market of newly built dwellings, facilitating a balanced recovery. The gradual extension of the scope of CSOK has also contributed to demand growth, and the lowering of VAT on newly built properties is expected to stimulate investment delayed due to the anticipation of even better conditions and other factors.

KSH data show that **dwelling construction costs have not fluctuated as extremely as the number of home building projects has** (Fig. 2). Driven by the aforementioned market factors, construction costs are expected to mirror the dynamic growth observed prior to 2008, and they will continue to increase in 2017.

Fig. 2: Dwelling construction costs in the past fifteen years (2001-2016; 2010=100%)



Source: Hungarian Central Statistical Office (KSH)