



Hungary's residential property market sees revival

A multi-year negative trend in the construction and sales volume of residential properties has been turning positive, according to available data compiled by the Hungarian Central Statistical Office, Eurostat and the National Bank of Hungary. The property market usually reacts slowly to market changes and rebuilding capacities scaled down during a crisis is a lengthy process. However, the rising number of building permits, rising property price indices, a supportive government policy (incentives such as the Family Housing Allowance and lower VAT on the sale of new properties) and sound international macro-economic environment (low inflation, low interest rates) can maintain favourable processes also in the long term.

The state of the domestic market

The credit crisis which had been triggered in the United States and soon reached Hungary found the country with the bulk of household loans denominated in some foreign currency with low interest rates (e.g.: HUF, CHF, JPY), as interest rates on forint loans had been far too high. Although borrowers had thus avoided high interest rates, they inadvertently became exposed to exchange rate risks. The sharp depreciation of global asset prices, the unprecedented volatility of foreign currency exchange rates and downsizings due to recession have driven households to dire straits, many of which became incapable of paying skyrocketing instalments. The building of new property units also came to a halt, as the former demand-driven market was replaced by a supply-driven one. **Residential property prices**, which had been falling in both absolute and inflation-adjusted terms for years, **have only recently begun to rise**. Along with prices, **the number of building permits has also picked up**, and a multi-year negative output trend in the construction sector has also turned slightly positive.

As István Lepsényi, Minister of State for Economic Regulation at the Ministry for National Economy, pointed out, the Government has been paying special attention to changes in the construction sector in general and the housing market in particular. Several pro-growth measures -- such as the **family housing allowance, lower VAT on the sale of new units** -- and a protracted low-yield environment all motivate the buying of property; let it be for personal or investment purposes. Lower VAT – coupled with unchanged property prices – increase the



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profits of constructors, but potential buyers are also believed to benefit for changes. Family housing allowances are expected to boost the financial resources of families aiming to purchase their home. On the other hand, the effect of this kind of incentive on prices must also be taken into account, as this factor has also been behind the current price rise.

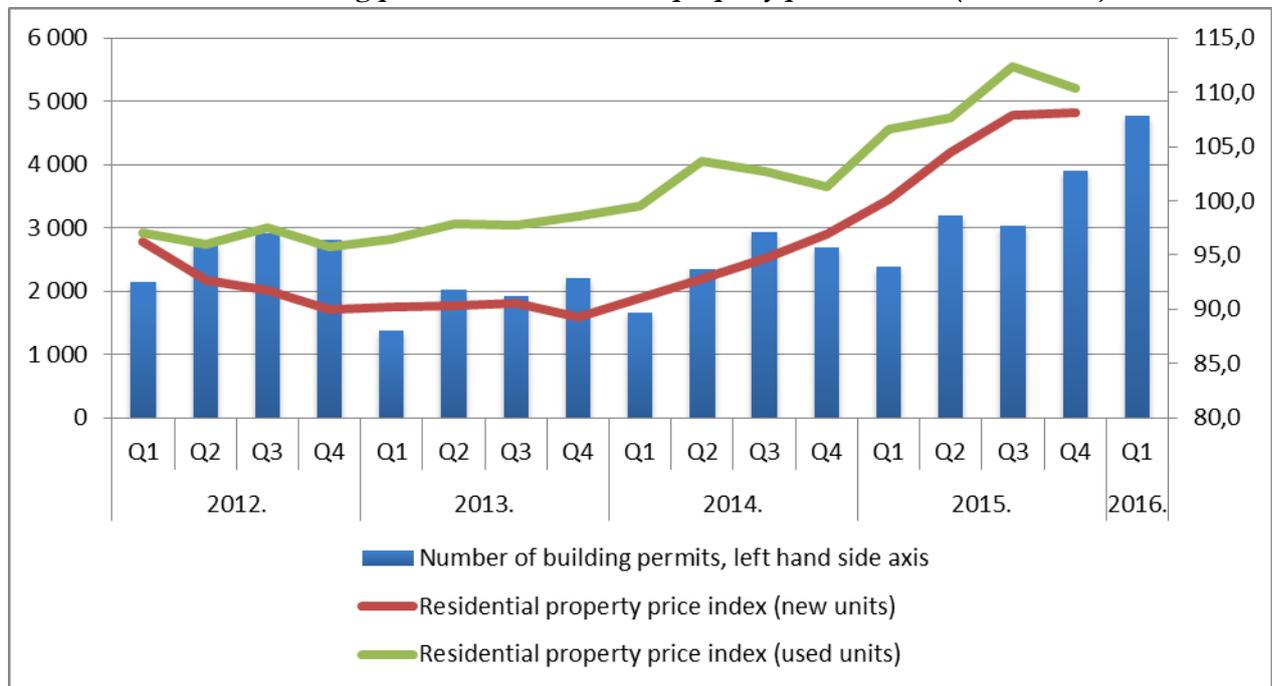
Low interest rates, which are also favoured by central banks, have become a global phenomenon with a ripple effect in Hungary. According to data by the National Bank of Hungary, **average interest rates payable for forint denominated housing loans** have recently fallen considerably: while they had been as high as 10-12 percent in 2012, they fell on average to 5.22 percent by March 2016. Concurrently, **interest rates on fixed forint deposits** for a year have also slumped, from 6-7 percent on average in 2012 to below 1 percent in recent months. Changes in interest rates and the improving general outlook have resulted in a rising stock of forint denominated loans. The above factors are boosting demand for properties, loans and – as a consequence – they are fuelling property prices. Interest conditions have also prompted the re-emergence of residential property investors, especially in the downtown areas of Budapest. It has to be noted, however, that property prices show huge regional differences, as price growth has been marked in Budapest and in Western Hungary. In regions with low population density or high unemployment rates prices remained subdued, demand is limited or non-existent and supply is low-quality.

KSH statistics also show that **the number of housing permits** had reached a low point in 2013, and it **has been rising modestly since the first quarter of 2014**. In the first quarter of 2016, 4765 building permits were issued. This number is a good indicator for future property trends. 41 percent of permits were issued in the Central Hungary region (of which 27 percent, or 1280, was for Budapest and 14 percent, or 670, was for Pest County). The share of the Western Hungary and Southern Transdanubia regions of overall growth was 26 percent and 14 percent, respectively. Data from Nógrád, Békés and Borsod-Abaúj-Zemplén Countries, on the other hand, are sending a warning sign, as in these regions the number of permits issued was 13, 19 and 21, respectively, in Q1 2016. Quarterly, component-adjusted **price indices also show that home prices are off their lows**. In terms of new residential properties, the index has been higher than the 2010 level since Q2 2013, while the prices of used properties reached the 2010 level in Q4 2014.



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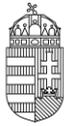
Number of building permits and residential property price indices (2010=100%)



Source: Hungarian Central Statistical Office (KSH)

The state of the European market

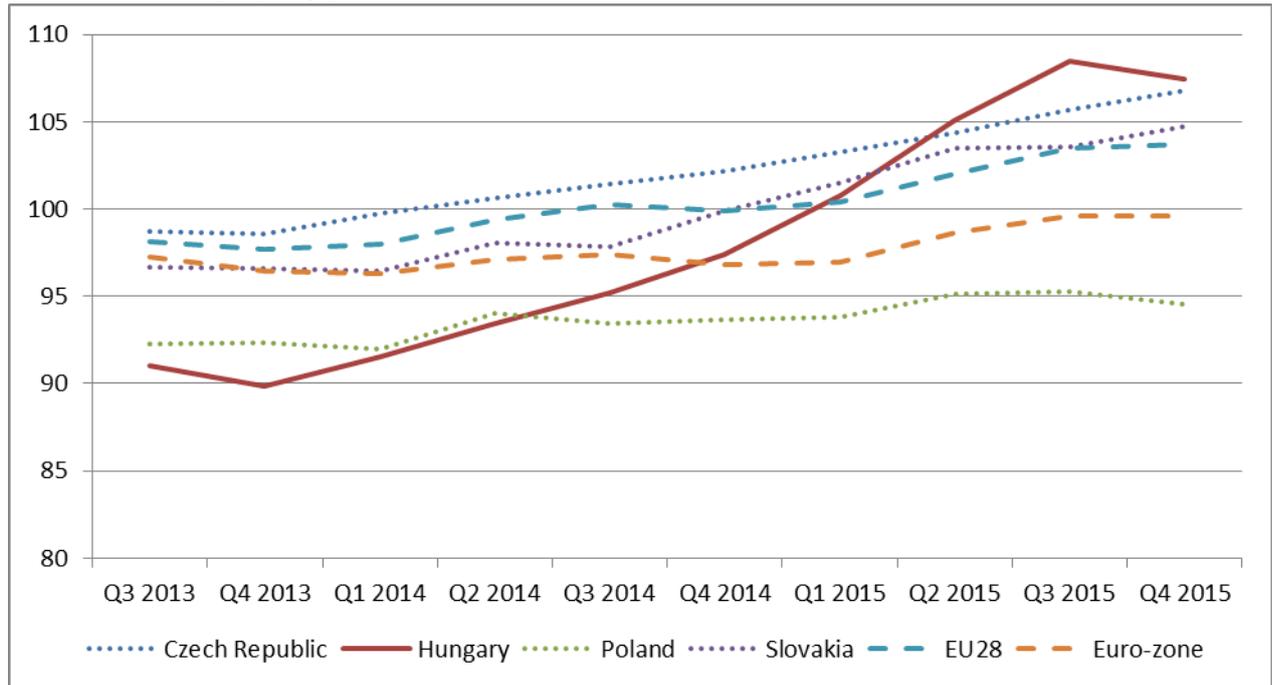
Positive trends on the Hungarian housing market are remarkable also in light of international data. **Eurostat presidential property price indices** show changes since Q3 2013 in comparison to 2010. Prices were on the rise in every country within the Visegrad Four group. In the observed period, the increase was the smallest in Poland and the largest in Hungary. Compared to data from the EU28 and the Euro-zone, price growth in the V4 appears even more dynamic. At the beginning of the observed period, Hungary's price index had hit a record low (90 percent), while by the end of 2014/beginning of 2015 the pace of growth exceeded the entire EU average. As the price index in the Czech Republic had already been higher, the increase was more modest and this pace of growth placed the country as second in the ranking. In Slovakia, prices had started from a relatively high base, 96 percent, and edged up to 105 percent, and thus Slovakia comes as third within the group. As Poland only recorded growth of 3 percentage points since a low level it had reached in 2013, the country ends up as last in the V4.



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Taking every member state into consideration, the largest price increases (20-30 percent) were posted by Sweden, Estonia, Ireland, Iceland and the United Kingdom. Data show falling prices in Italy, France, Croatia, Slovenia and Finland.

Residential property price indices (2010=100%) within the V4, the Euro-zone, and EU28



Source: EUROSTAT