



MINISTRY
FOR NATIONAL ECONOMY

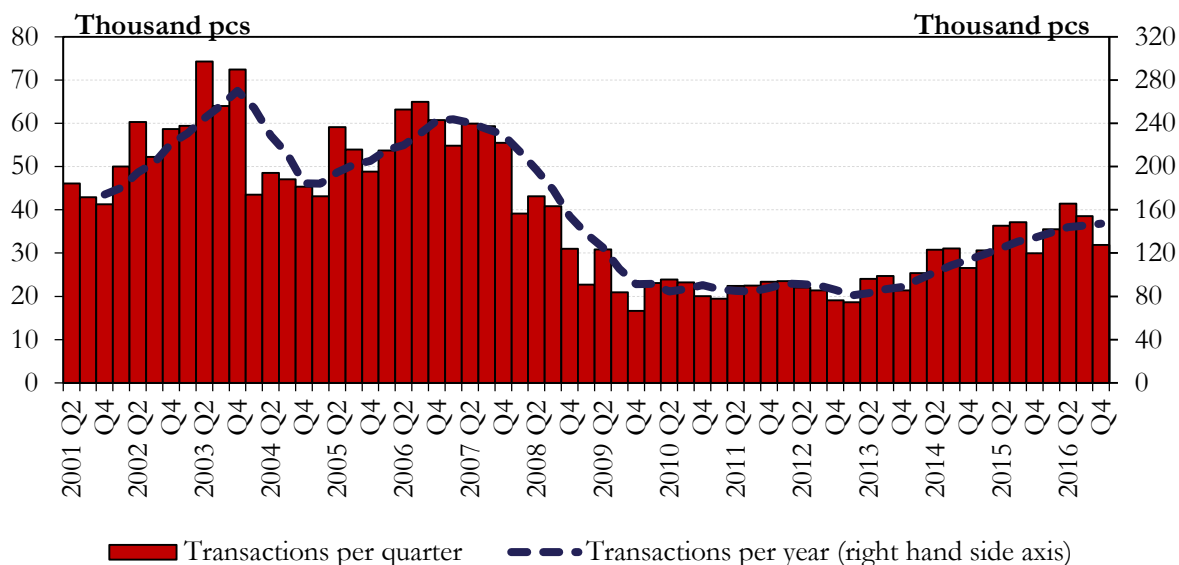
Lasting recovery on Hungary's housing market

According to the latest property price report by the Hungarian Central Statistical Office (KSH) published on 27 July 2017, prices continued to rise in the first quarter of 2017. The latest Housing Market Report by the National Bank of Hungary (May 2017) also shows favourable demand- and supply-side trends.

The housing market is key indicator of economic outlook in terms of both individual and national prospects. Housing market trends and the change in prices traditionally reflect the financial situation of households, lending trends as well as, naturally, the position and performance of the construction sector.

The number of housing market transactions reached a low point in 2012, when only 86 thousand residential property units changed hands. Since then, the volume of transactions has increased steadily, and the number of units sold in 2016 totalled more than 146 thousand. (see Fig. 1.) Used properties constituted the bulk of transactions. While the number of newly built homes was only 2 600 back in 2012, it was as much as 4 900 in 2016. The total value of housing market transactions was HUF 1865bn in 2016, of which the value of new homes was 5 percent or HUF 95bn, according to the KSH. A relatively large share of transactions was related to non-residents. 4.9 percent of the total number of transactions was carried out mainly by German, Romanian, Chinese and Slovakian citizens, but as they usually purchased higher-priced properties than domestic buyers did, the value of respective transactions accounted for 8.4 percent of total. The value of transactions was the highest in Budapest (14 percent of total) and in villages (11 percent of total). The latter figure is presumably the consequence of purchases made by buyers mainly from Germany, Austria and the Netherlands seeking properties in the countryside, including around the Lake Balaton.

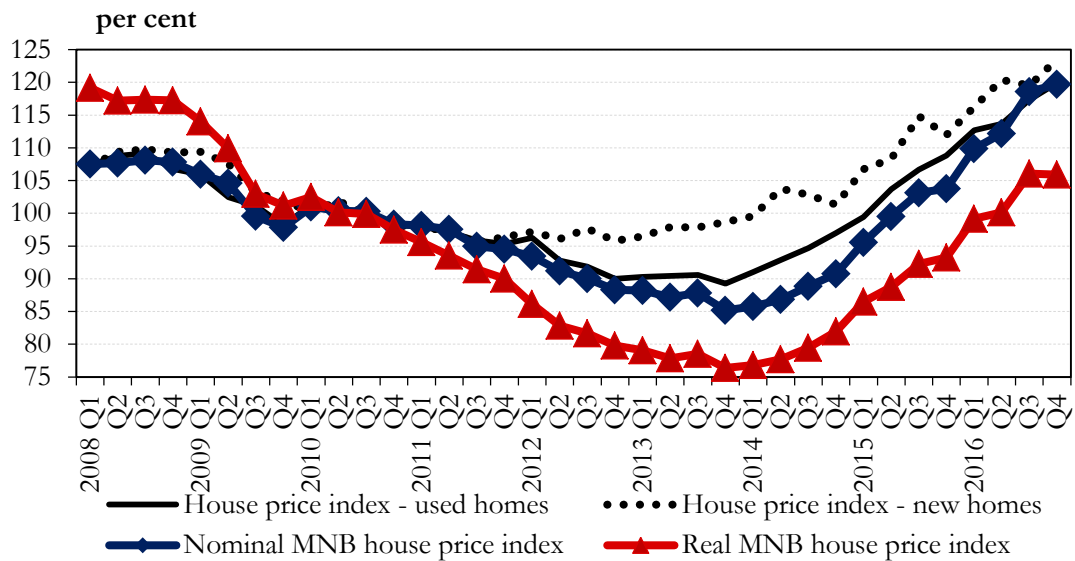
Fig. 1: Quarterly and annual number of housing market transactions



Source: MNB

The prices of new and used residential properties have been on the rise since 2014 in Hungary. Thanks to the increase, property prices had returned to the pre-crisis level of 2008 in 2015, and in 2016 they rose further in nominal terms by 11 percent and 13 percent concerning new and used units, respectively (see Fig.2.). The upward trend continued in the first quarter of 2017, gaining more (4.8 percent) in the case of used homes than in the case of new ones (1.7 percent). However, in real terms, prices are still below the level they reached in 2008. The slight pick-up in inflation prognosticated for 2017 signals the deceleration of price growth in real terms, and further price increases are seen by the MNB to curb housing market expansion.

Fig. 2: House price developments, 2008-2016, %



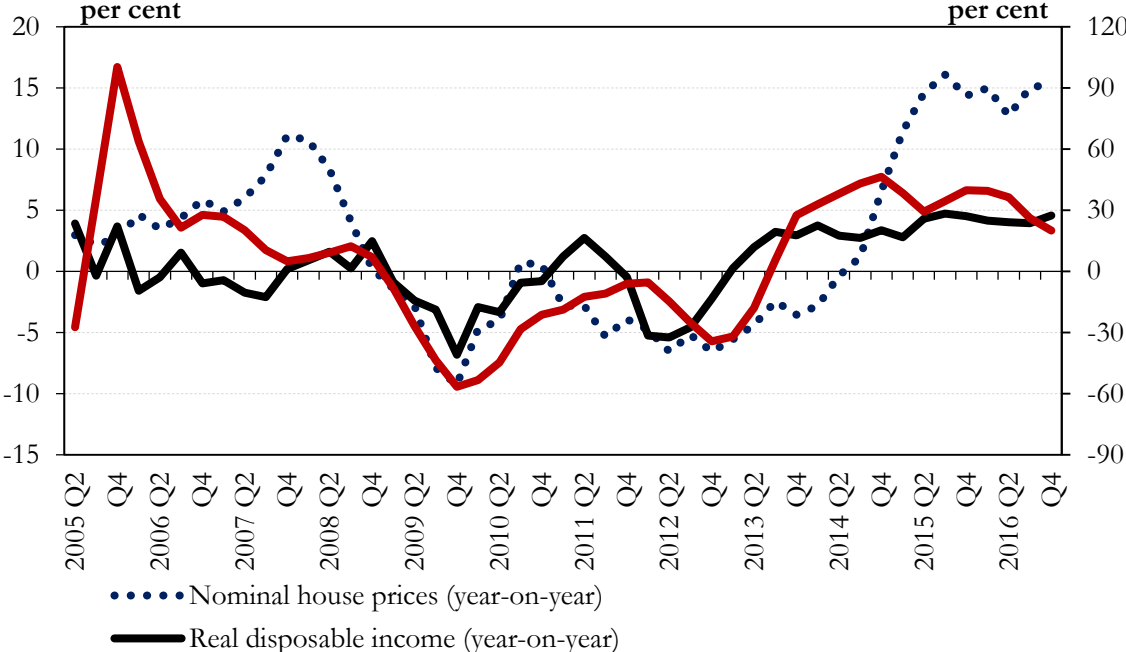
Source: MNB

Several positive developments can be observed on the **demand side** of the housing market. Thanks primarily to job and subsequent wage growth in recent years, the financial situation of households has steadily improved. Wages grew not only in nominal but also in real terms, by 3-4 percent annually since 2013, thanks to low inflation. The fact that labour force demand persists in the private sector further improves labour market conditions which is fuelling household income and spending growth, as the MNB notes. In 2016, the average age of home buyers was 43 years, and the most expensive residential property units were purchased by buyers aged 40-49 years. In Budapest, where homes are usually higher priced, the average buyer was older (45 years) than elsewhere in the country (41-44 years). The average price for which buyers aged 40-49 years purchased a home was also higher in Budapest (HUF 24.6 million) than it was in the case of county seats, towns or villages (HUF 12.5-7.5 million), according to the KSH.

Besides household savings, another major determinant of housing market demand has been a rebounding lending trend, boosted by favourable financing conditions. The role of lending has gained further weight concerning home purchasing in 2016: 51 percent of transactions were partly financed by loans, whereas in the prior two years it was only 49 percent and 46 percent, respectively. The volume of new mortgages increased significantly, by 42 percent, last year (excluding preferential loan conversions in the year 2015). Within that figure, the share of loans taken out for the buying of new homes soared (growing by 83 percent since 2015). Among loans, those with fixed rates were the most sought-after. Borrowing was also propelled by the Government's Family Housing Subsidy programme, under which HUF 66bn of grants were allocated in 2016 and related to which another HUF 72bn of loans were taken out. The value of

new mortgages totalled HUF 468bn in 2016, and this amount signals further lending growth even if banks continue to comply with existing “debt break” rules. The introduction of a new product category created by the MNB’s Financial Stability Board in cooperation with retail banks, the so-called consumer-friendly home mortgages, is also expected to add momentum to lending. Mortgages with an interest rate and mortgage fee ceiling and tenures of 3, 5 and 10 years have become available at the FHB, Erste Bank and 50 savings co-operatives since July 2017.

Fig. 3: Annual dynamics of house prices, disposable income and newly issued housing loans

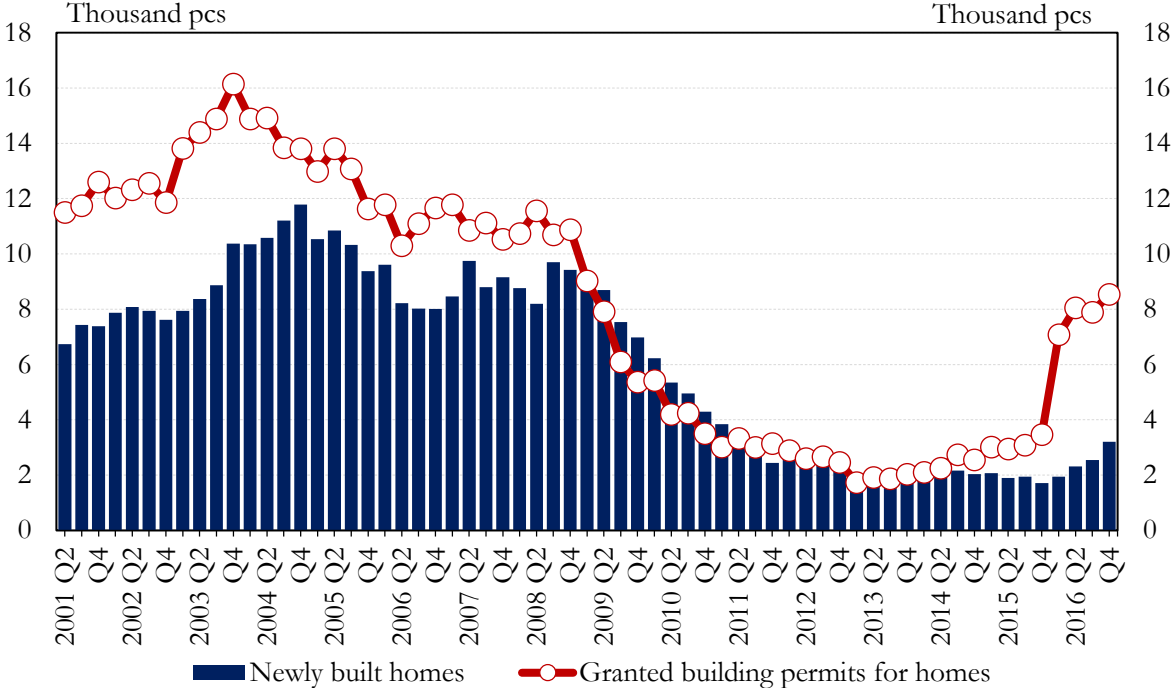


Source: MNB

The pace of growth concerning home prices has exceeded that of construction costs since 2014, and this has created a favourable environment for real estate developers, generating **supply-side** growth. It normally takes a couple of years for the supply-side to properly adjust to demand-side growth, and when this takes place, it signals that the housing market cycle has reached a mature period. It is worth noting that while in the prior housing cycle the increase in the number of building permits was mirrored by an increase in the number of homes built 5-7 quarters later, in the current cycle this transition period has grown to 8-9 quarters (see Fig.4). This means that while the number of building permits has been growing steadily since 2014, the number of homes built began to rise sharply only in 2017 (MNB). According to the KSH (Flash report of 28 July 2017), the number of residential property units completed in the first half of 2017 was up by 46 percent (5 004) compared to the previous year, and the number of building permits or home-building registrations also increased by 40 percent (19 823), compared to the first half of 2016.

The supply of homes was remarkable especially outside of Budapest. One of the factors curbing supply growth has been labour shortages in the construction sector. The lack of skilled work force may in coming months hold down the increase in the number of new homes completed.

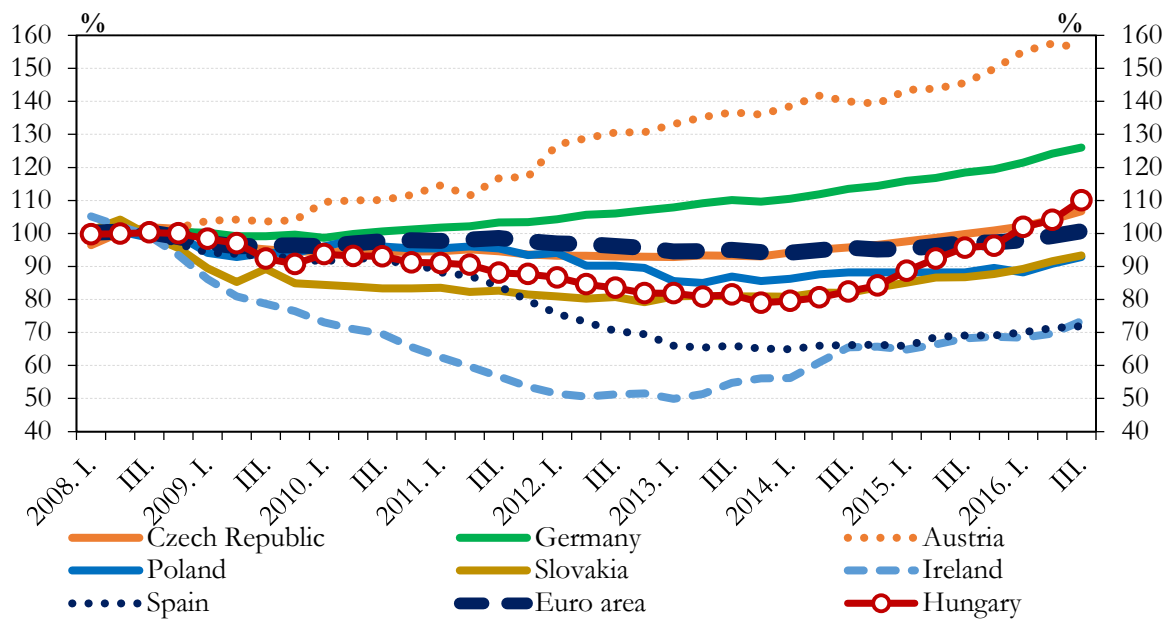
Fig. 4: Number of residential construction permits issued and number of homes built



Source: MNB

Taking a look at European averages shows that the pace of Hungary’s home price growth has been well above that of the EU. On the basis of the Eurostat’s home price index, in Q1 2017 the prices of homes in Hungary grew by 8 percent year-on-year, while the average price increase was 4.5 percent within the EU28 and 4 percent within the eurozone. The largest price growth rates were observed in the Czech Republic (12.7 percent), Lithuania (10.2 percent), Latvia (10.1 percent), Ireland (8.9 percent) and Bulgaria (8.8 percent) in the first quarter of 2017. Among the V4, residential property prices were up by 3.8 percent in Slovakia and by 3.3 percent in Poland. While in the short term price growth in Hungary has been among the highest in Europe, long-term statistics paint a different picture. The recent price increase has just narrowly compensated for the price slump seen in the wake of the crisis in 2008, whereas in other countries prices grew steadily even in this period. The case of Austria and Germany can be highlighted, where home prices have gained 57.3 percent and 26.5 percent, respectively, since 2008. On the other end of the ranking are Spain and Ireland, where the property price crash has proven to be persistent also in the post-crisis period (Fig. 5).

Fig. 5: House price developments in international comparison, 2008 average = 100%



Source: MNB

As a whole, the positive trend on the Hungarian housing market appears to be sound and sustainable, with a balanced adjustment of demand and supply. The MNB report concludes further growth is expected in the number of newly built homes and property prices.