



HOUSING MARKET REPORT



2024
MAY

*‘Using our skills, we may be able to build stairs
out of the stones which block our way.’*

Count István Széchenyi



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(May 2024)

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The housing market is of key importance for both economic agents (households, financial institutions) and the broader national economy. Housing market trends correlate closely with financial stability issues and are fundamental determinants of the short-term and long-term cyclical outlook. Overall, one can say that the housing market is integrally linked to all areas of the national economy. Housing market trends – in particular fluctuations in house prices – shape the savings and consumption decisions of households through their effect on their financial situation; they also impact the portfolios, profitability and lending activity of financial institutions via the collaterals of mortgage loans.

The Housing Market Report offers a comprehensive overview of current trends on the Hungarian housing market, identifying and describing the macroeconomic processes that influence the demand and supply sides of this market. Every six months, the Magyar Nemzeti Bank provides an overview of the developments on the housing market in Hungary in this publication.

Within its primary duties, the Magyar Nemzeti Bank views the property market and therein the housing market as priority areas in terms of inflation, the economic cycle and financial stability. The development of property market supply has a direct impact on economic growth, and oversupply and inadequate supply can both have serious consequences for financial stability. House price appreciation increases the wealth of households and encourages them to boost their consumption, which in turn impacts growth and inflation. Price appreciation also increases the lending capacity of financial institutions while reducing their expected losses, which has a stimulating effect on the economy via an increased supply of credit. The interconnection between the residential mortgage loan market and house prices demands special attention, as a self-reinforcing interaction can develop between bank lending and house prices over the course of economic cycles.

Using a complex, multifaceted set of data, the Housing Market Report facilitates deeper understanding of the factors behind market trends and provides insight into the interconnections among individual market participants. Nowadays, the housing market is included in the publications of central banks, both in Hungary and internationally, but typically only from the perspective of the main subject of the particular publication. In this context, the MNB's Housing Market Report is an internationally unique central bank publication, given the synthesis it offers in terms of the various macroeconomic and financial stability aspects of the real estate market. The following sets of information have been used for this publication:

- *The description of the macroeconomic environment shaping the housing market is based on information presented in the MNB's Inflation Report.¹ The statistical variables most relevant to the housing market include changes in average earnings, real incomes, unemployment and the yield environment.*
- *Our analysis of current trends on the housing market relies primarily on information supplied by the Central Statistical Office, the National Tax and Customs Authority and property agencies. Information on housing market turnover and house price trends can be subdivided according to the differences between the new-build and pre-owned segments of the housing market. Data on the regional heterogeneity of the housing market have also been used.*
- *With the help of the Housing and Real Estate Market Advisory Board (hereinafter: LITT), the findings and recommendations of market and governmental actors have been incorporated, in order to present housing market trends in the widest possible perspective.*
- *Our analysis of the residential mortgage loan market relies primarily on credit institutions' balance sheet data, interest rate statistics and loan agreement-level granular loan data collected by the MNB, and we also use the information we collect in the Lending Survey² on qualitative features in lending processes.*

¹ Magyar Nemzeti Bank, Inflation Report: <https://www.mnb.hu/en/publications/reports/inflation-report>

² Magyar Nemzeti Bank, Lending Survey: <https://www.mnb.hu/en/financial-stability/publications/lending-survey>

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1 Executive summary

The macroeconomic fundamentals underlying housing market developments improved somewhat from the end of 2023 and triggered an upswing in the domestic market. Employment was at a historical high in 2023 Q4 and, along with a double-digit increase in gross wages, real incomes returned to a growth path as inflation was curbed. Housing market activity is being driven by improving consumer confidence, better lending conditions and the renewed housing subsidies available from 2024, which added momentum in the first months of 2024 as well. Moreover, economic output expanded again in 2024 Q1, both in year-on-year and quarter-on-quarter terms.

By end-2023, annual housing price dynamics in Hungary rose to a nominal rate of 5.8 per cent, while in real terms a decrease of 1.8 per cent was still recorded. In the first quarter, the rate of nominal price appreciation may have accelerated further to 7.2 per cent. Nominal house prices rose by 3.4 per cent in Budapest, 5.7 per cent in other cities and 7.5 per cent in villages in this period. Incomes increased faster than house prices in 2023, bringing down the house price-to-income ratio by 4.1 per cent in Budapest and by 2.5 per cent overall in the domestic market, compared to 2022 Q4. Overpricing in the house market relative to the macroeconomic fundamentals stagnated at a significantly lower level compared to the 2022 peak, at about 12 per cent as a national average during the past year.

The total number of transactions in the housing market was extremely low in 2023, in particular in the first half of the year, falling short of the figure for 2022 by 21 per cent. Housing market turnover already began to recover in late 2023, and 2024 Q1 saw a year-on-year increase of 30 per cent in the number of sale transactions at the national level, while typical negotiated discount rates dropped to 3.0 per cent in Budapest and 4.8 per cent in other towns and villages by the end of 2024 Q1. Rents rose by 12.6 per cent, exceeding house prices, and thus the annual rental yield also increased compared to the same period of the previous year.

The upswing in housing market turnover was accompanied by an expansion in housing loans, as the volume of housing loan contracts concluded in the first two months of 2024 more than doubled year-on-year. Demand for loans was driven by improving economic prospects in the wake of disinflationary developments, lower lending rates and renewed housing subsidies. The latter also contributed to a sharp increase in average loan amounts, as the average contractual amount of HPS Plus loan agreements concluded in the first quarter was HUF 25.4 million, significantly more than the HUF 15 million average amount of loans for pre-owned homes excluding the HPS Plus facility in February 2024. The Lending Survey shows that the banks left their housing loan conditions unchanged in 2024 Q1 as well, but some applied the higher LTV limit to first home buyers. Looking ahead, the banks expect a further increase in housing loan demand with unchanged credit conditions. In terms volume, a total of 83 per cent of all housing loan contracts signed in February 2024 were concluded by the banks below the APR ceiling of 7.3 per cent. Introduction of the HPS Plus facility significantly improves the affordability of homes, particularly in the higher price category, including pre-owned homes in Budapest. However, housing has become considerably less affordable for families with two children, who are not planning to have a third.

Insufficient demand continues to be the main limiting factor regarding the output of domestic construction companies; at the same time, the number of people employed in the construction industry remained at a historical high in 2023, although maintaining this level represents a significant challenge for the sector. Home construction costs continued to increase at an outstanding – albeit decelerating – rate in comparison to the European Union. Occupancy permits were issued for 18,600 newly built homes in 2023, 9 per cent less than in the preceding year and equivalent to 0.41 per cent of the total housing stock recorded at end-2022. The renewal rate is thus significantly lower in Hungary than the average rate of 1.05 per cent recorded in other countries of the region. The number of building permits issued dropped by 39 per cent year-on-year. In 2024 Q1, the year-on-year decrease in the number of homes completed and building permits obtained continued. The deadlines related to the application of the reduced 5-per cent housing VAT have been extended by another two years, which may stimulate the expansion of supply over the short term. The number of apartments being constructed in condominium projects in Budapest in 2024 Q1 was somewhat lower in year-on-year terms. Turnover in the Budapest new homes market reflected increased activity in 2024 Q1, as 1,307 new condominium flats were sold in Budapest, 84 per cent more than sales at the lowest point in the same prior-year period. An outstanding number of newly built homes were on offer in the market to meet the growing demand, as a result of which the number of homes still available for buyers in Budapest increased somewhat on a year-on-year basis, while in the countryside the decrease in sales resulted in growth of 7 per cent in the available supply. A total of 23 per cent of the homes available in Budapest were repriced, 78 per cent of which were priced up by developer companies. The average price per square metre of newly constructed homes in Budapest rose by 2.8 per cent year-on-year, to HUF 1.47 million by the end of 2024 Q1.

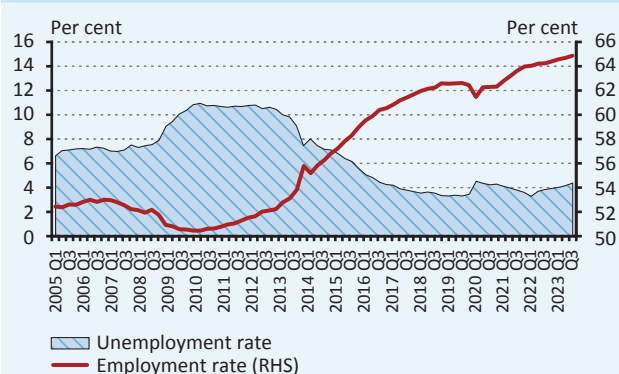
2 Housing market demand and house prices

Despite the stagnating economic performance, employment advanced to a historical high in 2023 Q4, even though the number of unemployed people started to increase from 2022 H2 due to the deceleration of economic growth. Gross domestic product expanded moderately again in 2024 Q1, increasing by 1.1 per cent year-on-year. Growth in average wages amounted to over 14 per cent in most branches of the national economy in the fourth quarter. In parallel with the disinflationary developments, real wages have been rising since September 2023, also contributing to an improvement in consumer confidence, but wage growth is expected to slow in the years to come. The net financial wealth of the population as a percentage of GDP has been stagnating over the past two years as a consequence of a decrease in borrowing and increased propensity to save.

By end-2023, housing price dynamics in Hungary accelerated to an annual nominal rate of 5.8 per cent, partly as a result of a lower basis, while in real terms a decrease of 1.8 per cent was recorded. Nominal house prices appreciated by 3.4 per cent in Budapest, 5.7 per cent in other cities and 7.5 per cent in villages in the same period. Indices published by the HCSO indicate year-on-year increases of 2.6 per cent and 11.5 per cent in the prices of pre-owned homes and newly built ones, respectively, in the fourth quarter. Incomes increased faster than house prices in 2023, reducing the house price-to-income ratio by 4.1 per cent in Budapest and 2.5 per cent overall in the domestic market, relative to 2022 Q4. After a substantial drop observed beginning from 2022 H2, the overpricing of house prices relative to the macroeconomic fundamentals did not decline further in 2023, and therefore the estimated degree of overvaluation was 12 per cent in the domestic market at the end of the year. The Budapest housing market was not overvalued in 2023 according to our estimates.

The number of sale and purchase transactions completed in 2024 Q1 rose 30 per cent year-on-year. The stronger demand for housing reduced the typical negotiated discount rate to 3.0 per cent in Budapest and 4.8 per cent outside Budapest by the end of 2024 Q1, while advertised offer prices dropped by an average of 3.4 per cent and 4.4 per cent, respectively, indicating an improvement in sellers' pricing position in Budapest. Rents rose at a year-on-year rate of 12.6 per cent – in line with wages and thus exceeding house prices – along with an increase in rental yield.

Chart 1
Unemployment and employment rate



Note: In the 15-74 age group.

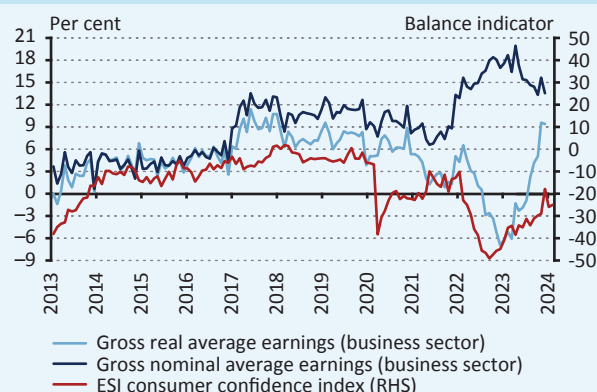
Source: HCSO

2.1 IMPROVEMENTS IN THE MACROECONOMIC FUNDAMENTALS UNDERLYING THE HOUSING MARKET

Employment in the national economy is at historical high.

The number of employees was 4,723,000 in February 2024, up 10,000 compared to January, according to seasonally adjusted data. Compared to the corresponding period one year earlier, on average 31,000 more people were employed between December 2023 and February 2024. The slow recovery in economic activity and certain demographic processes, however, may restrain any further significant increase in employment. The number of people employed in the private sector may drop by 0.3 per cent in 2024 and then increase by 0.0–0.5 per cent in 2025 and 2026. As a result of the economic slowdown, the number of unemployed started to rise from 2022 H2 (Chart 1).

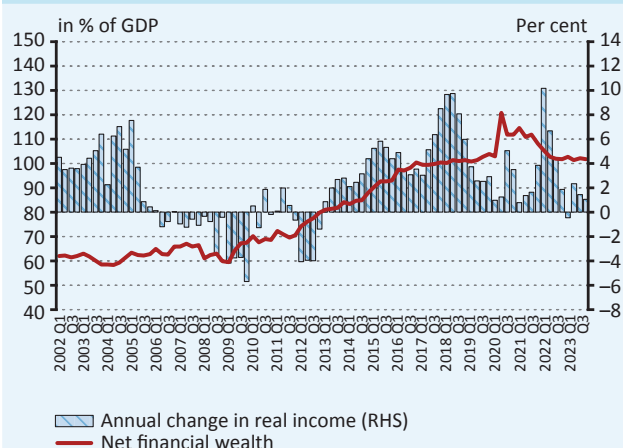
Chart 2
Changes in average earnings in the private sector and in the ESI consumer confidence index



Note: Based on seasonally adjusted data.

Source: HCSO, European Commission

Chart 3
Changes in households' financial assets, liabilities and real income



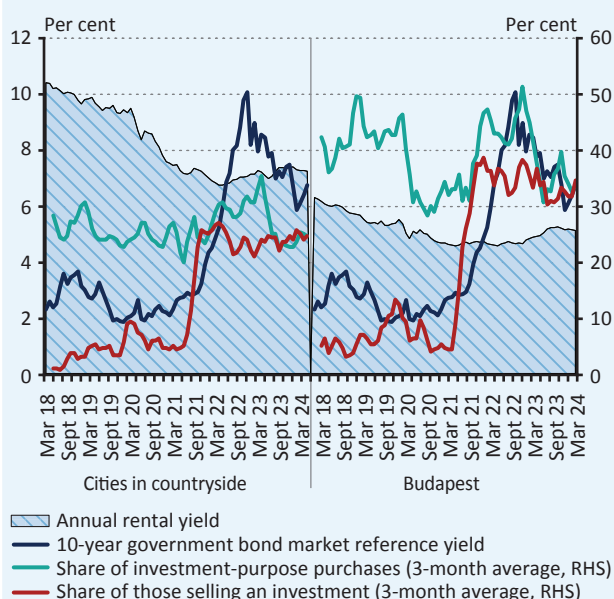
Source: HCSO, MNB

The seasonally-adjusted unemployment rate was 4.4 per cent in 2023 Q4, representing a quarter-on-quarter increase of 0.2 percentage point (10,000 persons). The number of unemployed was 227,000 in February, up 31,000 year-on-year, as a result of which the unemployment rate rose to 4.6 per cent in that month. The unemployment rate may be 4.2–4.3 per cent for this year as a whole, while for 2025 and 2026 the rates are expected to fall in the ranges of 3.5–4.0 per cent and 3.2–4.1 per cent, respectively.

In 2024, nominal wage dynamics will be more moderate than last year, but real wages will rise. In 2023 Q4, gross average earnings in the private sector rose by 14.9 per cent year-on-year. Average gross regular earnings increased by 15.7 per cent versus the same period of last year, while bonus payments fell short of the average of previous years. Growth in average wages was over 14 per cent in most branches of the economy in the fourth quarter. Average gross earnings in the private sector grew by 13.6 per cent in January 2024, compared to the same period last year (Chart 2). Real wages have been on the increase since September 2023 in parallel with the decrease in the rate of inflation. In December 2023, the minimum wage increased by 15 per cent and the guaranteed minimum wage by 10 per cent. However, the easing of labour market tightness, weak domestic demand and the wage increases announced by large firms earlier this year point to more subdued wage dynamics than in 2023. Wages may increase in the private sector by 10.0–11.0 per cent this year, 7.1–8.2 per cent in 2025 and 6.5–7.6 per cent in 2026. Real wage growth is also expected to decelerate in the private sector.

In 2023 Q4, real income increased by 1.0 per cent year-on-year. Households' net financial wealth has been stagnating at about 102 per cent of GDP over the past two years, due to a decrease in borrowing and higher propensity to save. The annual expansion of real incomes decelerated from 1.4 per cent in 2023 Q3 to 1.0 per cent in 2023 Q4 (Chart 3). The turnaround in consumption is based on the growth in real wages, but domestic consumption will be driven by the recovery of public confidence and increases in the real value of financial wealth from mid-2024 in particular. Household demand will also be encouraged by improving credit conditions.

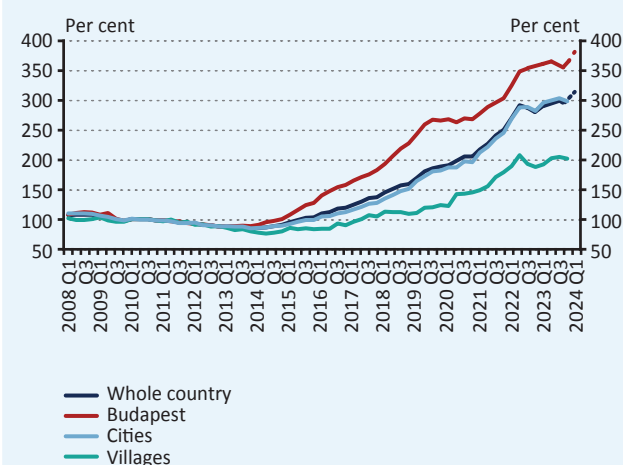
Chart 4
One-year forward looking home rental yield in rural towns and in Budapest, and the ratio of houses purchased for investment to such houses sold



Note: The annual rental yield calculated as the ratio of the annual rental yield net of personal income tax to the house price plus duty on the acquisition of property. The housing rent and price data used for the calculations refer to a flat with a floor space of 60 square meters.

Source: HCSO-ingatlan.com, Duna House, MNB

Chart 5
Nominal MNB house price indices by settlement type (2010 = 100 per cent)



Source: MNB

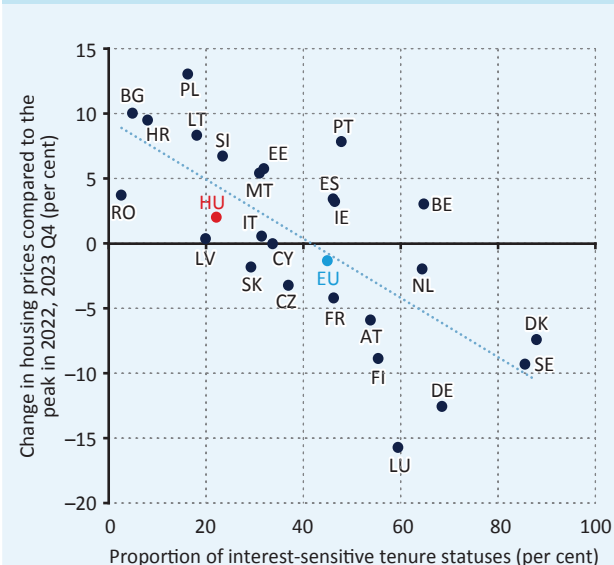
The ratio of investors was balanced on the buyers' and sellers' sides of the housing market in early 2024.

According to the results of a survey conducted by Duna House, for the first three months of 2024 on average investors accounted for 25 per cent of both buyers and sellers outside Budapest, while 34 per cent of buyers and 35 per cent of sellers in the Budapest housing market were investors (Chart 4). The average home rental yield rate in provincial towns was 7.2 per cent in March, which was still higher than the 10-year reference yield (6.7 per cent) on government securities. The rental yield rose from 4.9 per cent recorded in the corresponding period of the previous year to 5.1 per cent in Budapest, falling short of the government securities' reference yield. The continued decline in yields on alternative investments (primarily retail government securities) may reignite investors' demand in the housing market.

2.2 A MODERATE INCREASE WAS ONCE AGAIN OBSERVED IN HOUSE PRICES IN EARLY 2024

House prices increased again in all settlement types, in year-on-year terms. Housing prices in the domestic market temporarily dropped in 2022 H2, primarily in villages, which was followed by an increase in 2023 H1 and then the prices stagnated in the second half of the year in all types of towns and villages (Chart 5). As a result, the housing price increase accelerated to an annual nominal rate of 5.8 per cent in 2023 Q4 in Hungary as a whole, partly as a result of the low basis, while in real terms a decrease of 1.8 per cent was registered. Indices published by the Hungarian Central Statistical Office (HCSO) show year-on-year increases of 2.6 per cent and 11.5 per cent in the prices of pre-owned homes and newly built homes, respectively, in 2023 Q4 (Annex Chart 2). Nominal house prices rose by 3.4 per cent year-on-year in Budapest and by 5.7 per cent in other cities and towns, while in villages they grew by 7.5 per cent in 2023 Q4. According to the preliminary MNB house price index calculated on the basis of transaction data from real estate agents, year-on-year house price appreciation may have accelerated to 7.2 per cent nationwide and 6.1 per cent in Budapest in 2024 Q1.

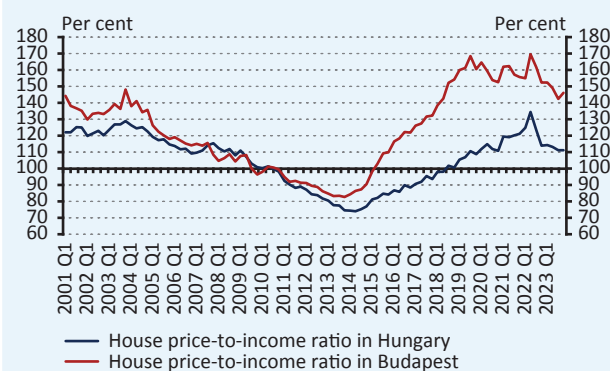
Chart 6
Changes in house prices relative to the 2022 peak, and ratios of interest rate sensitive forms of housing



Note: Rental at market prices and ownership based on mortgage loans are considered as interest rate sensitive forms of housing.

Source: Eurostat, MNB

Chart 7
House price-to-income ratio nationwide and in Budapest (2010 = 100 per cent)



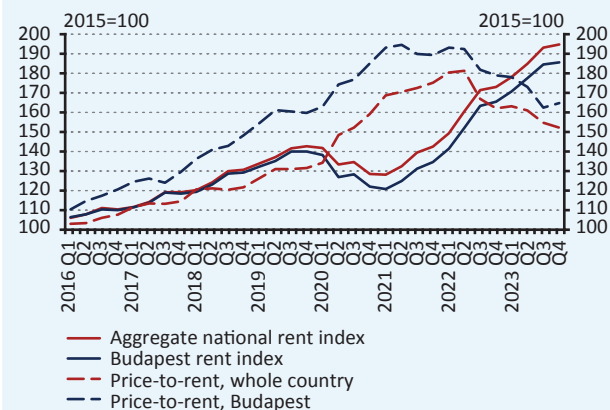
Note: The house price-to-income ratio is the ratio of the MNB house price index to household disposable income.

Source: MNB

The recent trends in house prices may have been profoundly affected by the housing structure. In the European Union, house prices were directly influenced by the upward trend in risk-free rates of return, as the rise in housing loan repayment instalments brought about a general decrease in demand in the housing market, while the shrinking of the yield advantage of house letting triggered a drop in demand for investment purposes. The effects of these factors, however, were also influenced by the specific housing structures prevailing in the various Member States. Rising market rates affected house prices more strongly in countries where the rental market plays a more significant role and where a higher proportion of people living in owner-occupied homes have mortgage loan debts. House prices dropped from their 2022 peaks by 7–9 per cent in the northern Member States, by 13 per cent in Germany and by a significant 16 per cent in Luxembourg; each of these countries has high proportions of the above so-called interest rate sensitive housing forms (Chart 6). By contrast, in countries with low proportions of interest rate sensitive housing forms – e.g. in the CEE region – nominal house prices did not or only moderately decreased relative to their 2022 peaks. This trend – i.e. that no material nominal house price decrease occurred in spite of the previous considerable overvaluation – was even reinforced in Hungary by a high proportion of loans with fixed rates.

Incomes increased faster than house prices in 2023. By 2022 Q2, the house price-to-income ratio – indicating the affordability of homes from people's own funds – had increased twofold in Budapest and 1.8 times at the national level from its lowest recorded in early 2014. Thereafter it began to drop as a result of a temporary decrease in house prices and the prevailing high nominal wage dynamics (Chart 7). In 2023 Q4, the ratio of house prices to households' disposable income dropped by 4.1 per cent in Budapest and by 2.5 per cent at the national level, in year-on-year terms. In 2023 Q4, an average of 11 years' average income was required to purchase a median-price 75-square metre home in Budapest (Annex Chart 5). In an EU comparison, Budapest is one of the least affordable capital cities (Annex Chart 6).

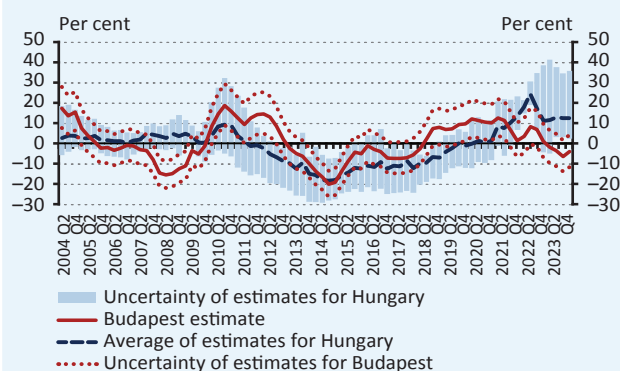
Chart 8
Development of rent indices and price-to-rent ratios nationwide and in Budapest (2015 = 100 per cent)



Note: The rent indices are based on the dwellings for rent in the offer of ingatlan.com. Development of price-to-rent ratios based on rent indices and MNB housing price indices.

Source: HCSO-Ingatlan.com, MNB

Chart 9
Deviation of house prices from the level justified by fundamentals, nationwide and in Budapest³



Source: MNB

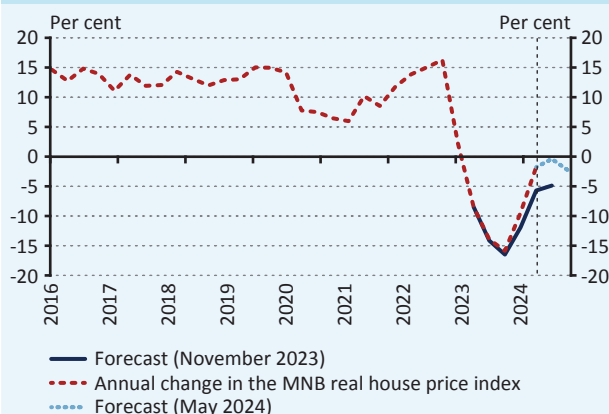
Rents continued to rise at a rate exceeding that of house prices. The HCSO-ingatlan.com rental price index indicates that the annual growth rate of rents in Budapest fell from 22.8 per cent in the previous year to 12.2 per cent in 2023 Q4, while at the national level the average rate decreased from 21.4 per cent to 12.6 per cent in one year (Chart 8). The house price-to-rent ratio, which captures the profitability of rental properties and the affordability (using own funds) of various forms of housing increased 1.9 times in Budapest and 1.8 times nationally in the period between 2015 and 2022 Q2, which was, however, followed by a decrease. In 2023 Q4, the ratio dropped by about 8 per cent in Budapest and 6 per cent elsewhere, in year-on-year terms.

The overvaluation of house prices compared to fundamentals remained more or less unchanged in an annual comparison. The overpricing of house prices relative to macroeconomic fundamentals dropped significantly from its 24-per cent peak in 2022 H2, but the downward trend did not continue in 2023, as a result of which the estimated degree of overvaluation was 12 per cent in the fourth quarter at the national level (Chart 9). Accordingly, the renewed upturn in house prices brought the decline in overvaluation to a halt, and looking to the future fundamentals are expected to continue to improve, which will reduce the risk of another nominal house price drop. The Budapest housing market was not overvalued in 2023, according to our estimates.

Real house prices are expected to continue falling in 2024 H1, but at a slower pace than in 2023 H2. According to our forecast, house prices may have increased somewhat slower in nominal terms in 2024 Q1 than they did according

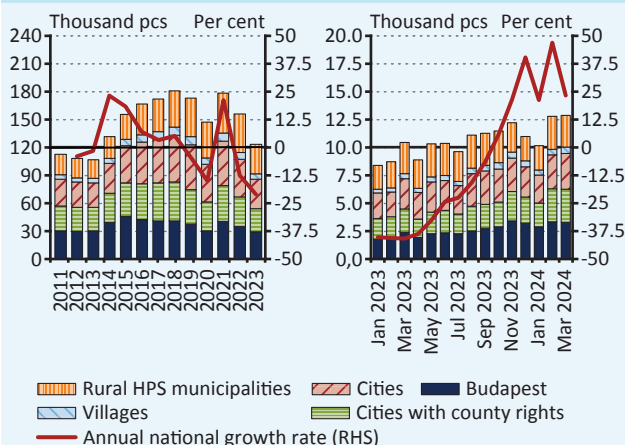
³ The quantification of the deviation of house prices from the level justified by fundamentals is based on four methodologies. In this Report, we publish the minimum, maximum and average results calculated using these methods. The four calculation methods are the following: 1) Per cent deviation of the ratio of real house prices versus real incomes from the ratio average calculated for the period from 2001 to 2022; 2) Estimation of the long-term equilibrium level of Hungarian house prices as determined by macroeconomic fundamentals in a vector error correction model (VECM). For details on this methodology, see Tamás Berki – Tibor Szendrei (2017): *The cyclical position of housing prices – a VECM approach for Hungary*, Magyar Nemzeti Bank, OP 126; 3) Estimation of the level of Hungarian house prices as determined by macroeconomic fundamentals in a dynamic OLS model; and 4) Deviation of Hungarian house prices from the equilibrium level using a house price forecasting structural model. For more details, see: Magyar Nemzeti Bank: Housing Market Report, October 2016, Box 1. Deviation of Budapest house prices from the level justified by estimated fundamentals calculated in a dynamic OLS model; for a more detailed description of the methodology, see Magyar Nemzeti Bank: Financial Stability Report, May 2017, Box 2.

Chart 10
Evolution and forecast of the aggregated real MNB house price index



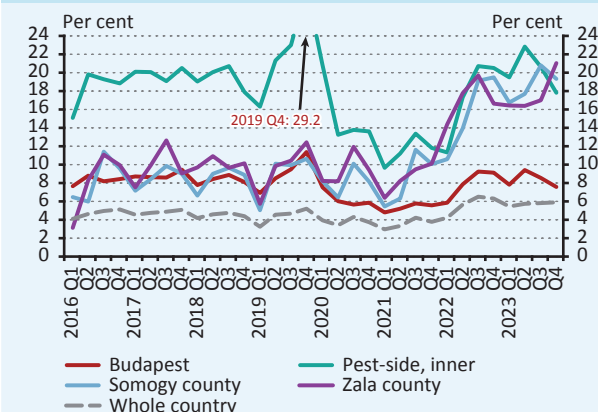
Source: MNB

Chart 11
Number of housing market transactions by type of settlement



Note: Taking into account the ownership acquisitions of 50 per cent and 100 per cent by individuals. From July 2022 until September 2023, data from the NTCA's levy database, adjusted based on the estimated level of processing by settlement type. From October 2023, based on real estate agents' transactions and estimated market share.
Source: NTCA, MNB, housing agent database

Chart 12
Ratio of foreign buyers in some priority regions' housing markets



Note: Pest, inner districts: V., VI., VII., VIII., IX.
Source: NTCA

to calculations based on agents' data, and thus in real terms they may have dropped by 0.4 per cent year-on-year. Real house prices are expected to decrease by 2.3 per cent year-on-year in the second quarter of the year (Chart 10). In terms of the macroeconomic fundamentals determining housing market trends, real incomes may increase, which in turn should drive housing market demand. On the other hand, the unemployment rate may increase somewhat and household lending may continue to remain low in real terms in the first half of this year.

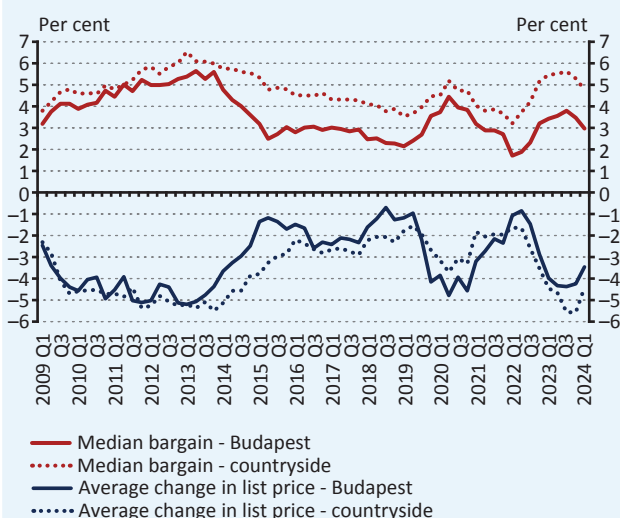
2.3 DOMESTIC HOUSING MARKET CHARACTERISED BY AN INCREASE IN HOUSING MARKET TURNOVER AND A DECREASE IN PRICE NEGOTIATION

The number of sale and purchase transactions returned to its long-term average by 2024 Q1. The number of sale and purchase transactions in the housing market dropped by 21 per cent (from 156,000 to 123,000) nationwide in 2023, evenly distributed across the different types of settlements, but a steady uptrend was observed in the number of monthly transactions during the year (Chart 11). The number of sale and purchase transactions increased by 30 per cent nationwide in 2024 Q1 relative to the lowest number recorded in 2023 Q1, returning to the long-term Q1 average for the years between 2011 and 2023. In terms of settlement type, in the first quarter of the year the number of transactions increased by 55 per cent in Budapest, by 41 per cent in towns with county-level rights, by 21 per cent in other towns and by 10 per cent in villages whose residents are eligible for the Village HPS, compared to the same prior-year period. The increase in the number of transactions was also supported by renewed positive real wage growth, the downward trend in lending rates, the higher aid amounts available under the Village HPS from the beginning of the year and the launch of the HPS Plus programme.

The proportion of foreign house buyers decreased moderately at the national level, but remained high in the most popular counties. The proportion of foreign buyers in the Hungarian housing market dropped from 6.3 per cent to 5.9 per cent in 2023 Q4 in year-on-year terms, but remains high in a long-term comparison (Chart 12.). In the same period, the proportion of foreign buyers in the inner districts of Pest dropped from 20.5 per cent to 17.8 per cent and thus fell from 9.1 per cent to 7.6 per cent for Budapest as a whole. Outside of Budapest, the only significant increase (+4.4 percentage points) was observed in Zala county, where the proportion of foreign home buyers rose to 21.1 per cent, exceeding the 19.4 per cent recorded in Somogy county, which is also popular among foreigners. The impacts on house prices of house purchases for investment, including purchases by foreigners in particular, are discussed in more detail in Box 1.

Chart 13

Median negotiated discount in the Budapest and rural housing markets, with the average change to the asking price



Note: Negotiated discount: the percentage of the reduction in the transaction price compared to the last listed price. Change to list price: percentage change applied to the list price during the advertising period.

Source: MNB, housing agent database

The typical negotiated discount rate sank to the average level, but sellers still made significant reductions in their asking prices during the period of advertising. The median negotiated discount rate dropped from 3.5 per cent in 2023 Q1 to 3.0 per cent in 2024 Q1 in Budapest and from 5.5 per cent to 4.8 per cent elsewhere in Hungary, reflecting an upswing in demand in the housing market (Chart 13). The prevailing typical negotiated discount rate no longer appears to be high relative to the rates recorded during the past 10 years. It should also be noted however, that sellers reduced their asking prices significantly – by an average of 4.4 per cent, with no change year-on-year outside Budapest – in 2024 Q1 as well, during their advertising periods. In Budapest, sellers reduced their asking prices by 3.4 per cent while advertising, somewhat less than the average cut of 4.0 per cent observed in early 2023. Improvements in home sellers' price setting position have so far only been observed in Budapest.

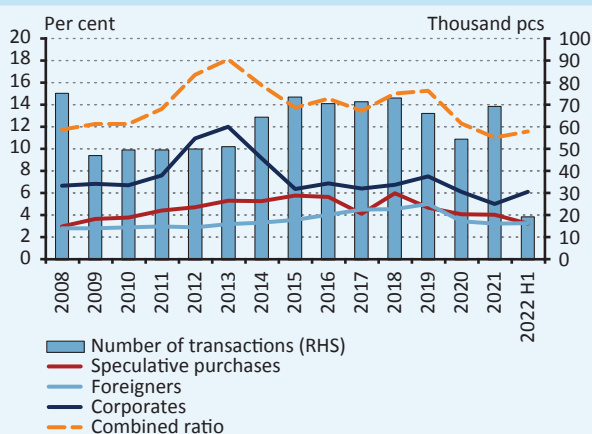
Box 1

Relationship between house purchases for investment and the rate of increase in house prices

Demand for investment purposes may accelerate the growth of house prices.

The majority of households live in owner-occupied dwellings in Hungary, and since Hungary has no advanced institutional rental housing market,⁴ in many cases they have no viable alternatives to ownership. Steady demand for housing helps properties effectively keep their value in the long term and, partly as a result of the scarce supply of rental housing, letting homes has been generating favourable yields in the low yield environment of the past decade. As a consequence of all of these factors, the number of home purchases for investment also rose considerably in Hungary during the upward phase of the housing market cycle. Demand for homes as a form of investment may drive dwelling construction and contribute to quality improvements in the housing stock, through refurbishment by investors, to increase the value of their investments, but it may also accelerate price increases thereby reducing the availability of housing for households. In this Box, we analyse how the ratio of house purchases for investment has been changing since 2008 and whether there is a measurable connection between its territorial intensity and the rate of increase in house prices.

The number of transactions and proportion of home purchases for investment purposes in the examined market segments



Note: In Budapest, in the county seats and in the special resort area of Lake Balaton, examining only the apartments in multi-apartment buildings. The data for 2022 refer to the first two quarters.

Source: MNB, NTCA

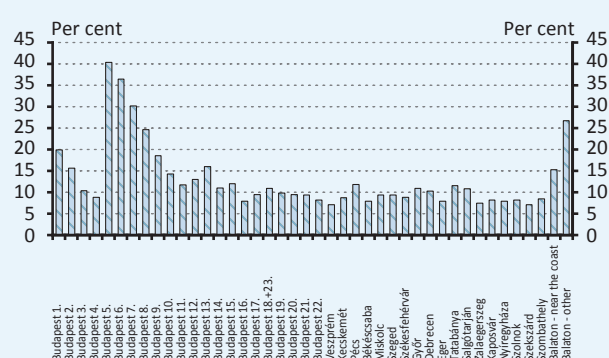
⁴ For more detail on the subject see the MNB's April 2024 Commercial Real Estate Market Report discussing the situation prevailing in the domestic and the regional institutional rental housing market in Box 2.

In our analysis, we captured purchases of dwellings for investment purposes through groups of buyers widely used in international literature (hereinafter: investment proxies): transactions executed by foreign citizens, by companies and those executed for speculative purposes are considered as purchases for investment. A transaction is considered to be executed for speculative purposes if it is followed by the resale of the property for the purpose of realising a capital gain, within one year in our case. Foreign citizens may, in reality, also purchase dwellings in order to live in them and companies may purchase dwellings for use as offices, but the potential price-increasing impact of such transactions may also crowd out from the market Hungarian citizens wishing to purchase dwellings to live in. Even so, the number of purchases for investment is substantially underestimated, as we cannot identify Hungarian citizens' purchases of dwellings for investment as such.

The proportion of purchases for investment was particularly high in the inner Pest districts, in the Buda hills districts and in towns and villages around Lake Balaton. Our statistical analysis was carried out on a panel database, limited to condominium dwellings and the period between 2008 Q1 and 2022 Q2, made up of 42 territorial units⁵ comprising county seats, Budapest and the priority resort district of Lake Balaton. 4.7 per cent of the approximately 885,000 transactions covered in our study were for speculative purposes in the long term; 7.4 per cent of the transactions were effected by companies and 3.6 per cent by foreign citizens. While the proportion of dwellings purchased by businesses was highest in 2012–2014, during the worst period of the housing market crisis, the ratio of speculative and foreign buyers increased steadily from 2008 until 2018–2019 and then began to fall. Major variations were observed between the different territories however: the proportion of investment transactions was 7–12 per cent in the county seats and in districts III, IV, XI and XIV–XXIII of Budapest, 13–20 per cent in districts X and XIII as well as the Buda hills districts (I, II and XII), and 19–40 per cent in the inner Pest districts (V–IX). The ratios of speculative purchases and those of foreigners were higher than average in the Buda hills districts while in the inner Pest districts the ratios of each of the investment proxies were significantly higher than average. The proportion of purchases for investment was 15 per cent in towns and villages in the Lake Balaton resort district near the lake shore – primarily as a result of a 10-per cent share of purchases by companies – and 27 per cent in other towns and villages in the same district primarily because of the 19-per cent share of foreign buyers.

The ratio of speculative purchases is most closely related to changes in house prices, while the territorial differences in terms of house price dynamics are dominated by the different intensities of foreigners' purchases. The result variable of our model⁶ was the quarterly variation in the house price indices calculated for the individual territorial units, while its three main explanatory variables included the specific shares of the various investment proxies within the total number of purchases. The median house price prevailing in the area concerned was used as control variable, along with the change in the number of transactions per person. The model was also estimated for robustness by restricting the assessment to the Budapest areas. Our results show that a 1-percentage point increase

Proportion of purchases for investment purposes in the examined areas over the entire period



in each of speculative purchases, company purchases and foreigners' purchases entails increases of 0.25, 0.11 and 0.18 percentage point in the quarterly rate of growth of house prices, respectively, in any given area. From another perspective, this means that, at an annual level, a 5-percentage point higher proportion of speculative, company or foreigners' purchases in any given area will be accompanied by increases in house prices that are 5.1, 2.2 and 3.6 percentage points higher, respectively. The impact of speculative purchases, and the impact of companies' and foreigners' purchases, are statistically relevant at confidence levels of 99 per cent and 90 per cent, respectively. The results of the model restricted to Budapest are essentially identical to those of the national model, but the ratio of company purchases did not turn out to be significant in this case. Accordingly, the proportion of speculative purchases is most closely related to changes in house prices; however, since the ratios of foreign buyers are more highly variable, this particular one of the three investment proxies is the one most relevant regarding the territorial heterogeneity of the house price dynamics. A one standard deviation higher share of foreign purchases explains 18.6 per cent of the variance in quarterly house price changes.

Estimated impact on the quarterly change in house prices, in percentage points

Estimated impact on the quarterly change in house prices, in percentage points		Proportion of speculative purchases	Proportion of corporate purchases	Proportion of foreign purchases
Country model	Effect of 1 percentage point higher rate	0.25	0.11	0.18
	Effect of a rate one standard deviation higher	0.54	0.53	0.99
	Effect of a rate one standard deviation higher, in the proportion of the standard deviation of house price change (%)	10.1	10.1	18.6
Budapest model	Effect of 1 percentage point higher rate	0.25		0.19
	Effect of a rate one standard deviation higher	0.59		1.04
	Effect of a rate one standard deviation higher, in the proportion of the standard deviation of house price change (%)	10.7		18.7

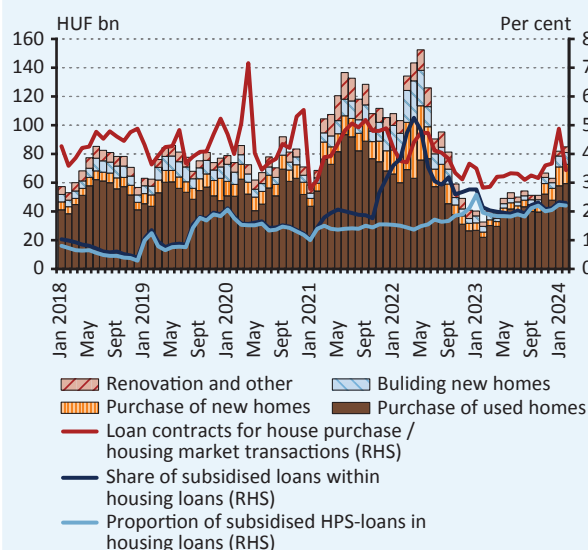
Note: The effect of speculative purchases is significant at 1 per cent, and the proportion of foreign purchases at 10 per cent. The proportion of corporate purchases is significant at 10 per cent in the country model and not significant in the Budapest model.

Source: MNB

3 Housing loans and housing subsidies

Residential real estate lending returned to a growth trajectory at end-2023, while in early 2024 banks concluded more than twice the volume of housing loans in a year-on-year comparison. This significant growth was enabled partly by the low basis, but the improvement in consumer confidence driven by disinflationary developments, the renewed housing subsidy facilities and lower lending rates also supported stronger demand for loans. The average amount of housing loans increased considerably in early 2024, presumably in response to the introduction of the HPS Plus loans, as a result of which the average amount of loan contracts signed in the first quarter of the year reached HUF 25.4 million. The Lending Survey shows that the banks kept their housing loan conditions unchanged in 2024 Q1 as well, but many applied the lower LTV limit to first home buyers. Responding institutions experienced an increase in demand for housing loans in 2024 Q1 and a growing number of them anticipate continued expansion, also in view of the increase in demand that may be expected to take place in the wake of the changes in housing subsidies. In adaptation to the APR cap, which was reduced from January 2024 to 7.3 per cent, banks offered housing loans with interest rate fixation for at least 5 years with an average APR of 6.9 per cent in February 2024; 83 per cent of the total volume of loans granted in February was provided below the APR cap. The introduction of the HPS Plus substantially improves the affordability of homes, particularly in the case of pre-owned homes in Budapest (and high value homes elsewhere); for families with average earnings, having two children and not intending to have more, the affordability of homes deteriorated significantly in the wake of the transformation of the HPS, and thus purchasing either a new home or an average pre-owned home in Budapest with the help of a loan would result in excessive financial tightness.

Chart 14
Disbursement of housing loans by loan purpose and share of home purchase on credit

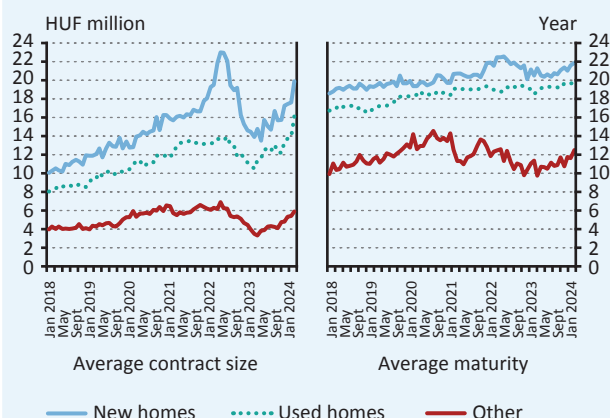


Source: MNB

3.1 RESIDENTIAL REAL ESTATE LENDING RETURNS TO A GROWTH TRAJECTORY

Residential real estate lending is picking up again, partly as a result of a low basis. The volume of housing loan contracts concluded in 2023 dropped by 50 per cent from the preceding year's figure, but the HUF 182 billion total amount contracted in the fourth quarter of the year was already 21 per cent higher in year-on-year terms. The upward trend in residential real estate lending continued in 2024: the volume of housing loans contracted in February (HUF 85 billion) was more than 2.5 times higher compared to the same prior-year period. The largest increase was observed in the amount of loans borrowed for purchasing new dwellings, although they make up just 16 per cent of the total housing loan portfolio. The total amount of loans borrowed for purchasing pre-owned homes – accounting for 70 per cent of the total housing loan portfolio – also grew by nearly threefold year-on-year, along with a less dramatic – 31 per cent – increase in loans for renovation and other housing-related purposes (Chart 14). The home renovation programme which will be available from June 2024 may drive a large increase in the volume of loans applied for; the anticipated impacts of the programme are analysed in Box 2. The upswing in residential real estate lending was motivated by falling lending rates, the modified housing subsidies, the improving economic outlook, accelerating economic growth and the increase in real wages. The same circumstances also encouraged households to

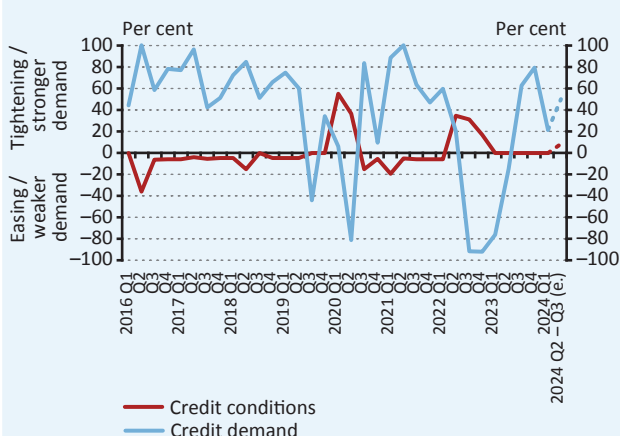
Chart 15
Average contract amount and maturity of new housing loans



Note: Maturities are contract amount weighted averages.

Source: MNB

Chart 16
Changes in credit conditions and demand for housing loans



Note: The net ratio is the difference between tightening and easing banks, and between banks indicating stronger and weaker demand, weighted by market share.

Source: MNB, based on the answers of responding banks

finance an increasing proportion of home purchases by borrowing. 34 per cent of home purchases in February are estimated to have been financed with the help of housing loans, up 6 percentage points year-on-year.

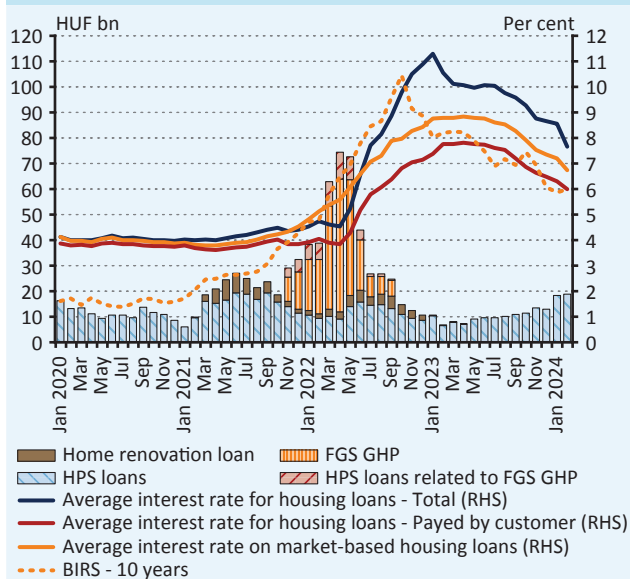
The average housing loan amount rose dramatically in early 2024. After hitting a record low in early 2023, average loan amounts returned to a growth trajectory and increased dramatically in February 2024 due to stronger demand for housing loans: the average loan amount borrowed for the construction or purchase of new dwellings was HUF 20 million, close to the levels recorded in early 2022 when the central bank's Green Home Programme was available (Chart 15). The average amount of loans taken out for purchasing a pre-owned home rose to HUF 16 million, marking another historical high, up HUF 5.6 million year-on-year. The increase in loan amounts in the month of February was driven partly by the introduction of the HPS Plus loans,⁷ a facility which alone provides sufficient loan amounts for purchasing real estate, in contrast to the earlier arrangements which typically involved combinations of market and subsidised housing loans. The average contractual amount of HPS Plus loans was HUF 24.5 million in February and a significant proportion of such loans were borrowed for purchasing pre-owned homes. Without such loans, the average loan amount for borrowed for pre-owned dwellings would have been HUF 15 million in the same month. Loan amounts also grew relative to the collateral value, and accordingly the average LTV rose to 43 per cent by the end of 2023 from 36 per cent recorded at end-2022 (Annex Chart 12). In February 2024, the average maturity period of loans was 22 years for purchasing new homes and 20 years for buying pre-owned homes.

Banks observed an upswing in demand for housing loans in 2024 Q1, which they expect to continue and even accelerate. According to responses to the Lending Survey, the responding institutions left the terms and conditions of their housing loans unchanged on the whole in 2024 Q1 as well, but a net 62 per cent of the banks loosened their loan-to-value ratio requirements in connection with the preferential terms and conditions provided for first home buyers. A mere 9 per cent of responding institutions foresee tightening – by increasing their fees for loan disbursement – during the coming half year, while a net 47 per cent reported plans to reduce their margins (Chart 16). In 2024 Q1, a total of 22 per cent of the institutions participating in the survey reported an increase in demand for housing loans, and about half of the banks expect this to continue to accelerate, also in view of the mounting demand anticipated in the wake of the changes in housing subsidies.

⁷ For more details on the characteristics of the HPS Plus facility see Box 2 in the Housing Market Report of November 2023.

Chart 17

Transaction and customer interest rates on newly disbursed housing loans and the volume of housing loans with preferential interest rate

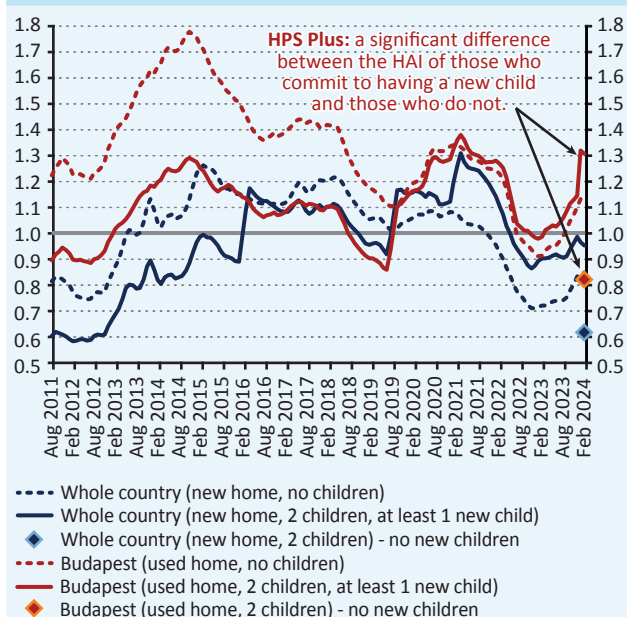


Note: Average interest rate weighed by contractual amount. Transaction and customer interest rates include all housing loans.

Source: MNB

Chart 18

Housing Affordability Index (HAI)



Note: The HAI shows the number of times the income of a household with two average earners covers the income required for the financed purchase of an average home. If the value of the indicator is over 1, the family is able to buy a home on credit without assuming an excessive risk or overstressing its liquidity in terms of the parameters detailed below. However, if it is below 1, the purchase represents excessive risk and financial burden. Calculated for a flat of 45 square metres without a child and 65 square metres for two children. In the case of families wishing to have more children: values calculated with subsidies, but not including the forgiven HPS Plus loan debt. Parameters of the loan product, except for the interest rate, are constant. LTV = 70 per cent, PTI = 30 per cent, maturity = 15 years. Net wages used in the calculation of the indicator are seasonally adjusted.

Source: HCSO, MNB

The overwhelming majority of housing loans are priced below the APR cap by the banks. Due to the voluntary APR cap of 8.5 per cent on retail mortgage loans announced by the Government in October 2023 and as a result of a decrease in long-term funding costs, the average interest rate on market-rate housing loans dropped from 8.3 per cent in September to 7.3 per cent by December, while the average volume-weighted APR on housing loans with interest rates fixed for over 5 years dropped from 8.6 per cent to 7.6 per cent in the same period. In February, as an adjustment to the APR cap that was reduced to 7.3 per cent from January 2024, the average APR on housing loans with interest rates fixed for at least five years fell to 6.9 per cent, while the average housing loan lending rate was 6.7 per cent (Chart 17). In February 2024, banks contracted 79 per cent of new market-based housing loans and 83 per cent of the total contract amount below the prevailing APR cap. With the termination of the FGS Green Homes Programme and home renovation subsidy, the interest-subsidised loan associated with HPS remains the only major subsidised loan with an interest rate not exceeding 3 per cent. Consequently, the average interest rate paid by customers dropped to 6.0 per cent – which was below the market rates – in February 2024, down 1.8 percentage points year-on-year.

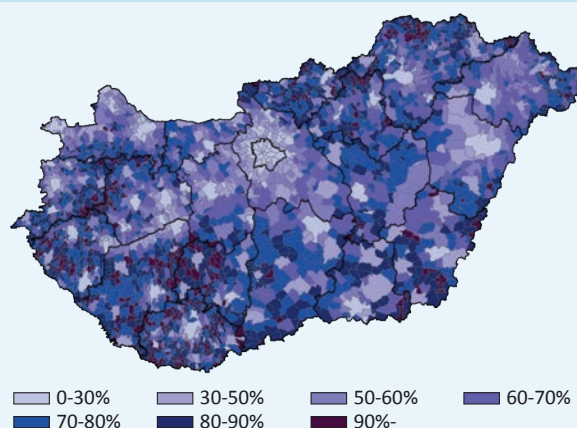
In larger towns, only families intending to have more children are now eligible for subsidies that substantially improve affordability. Since January 2024, the Home Purchase Subsidy Scheme for Families, which was formerly available to all families with children, has been replaced by the HPS Plus scheme. The latter, however, may now only be applied for by families committing to having more children, possibly reducing the number of eligible beneficiaries by two thirds. Purchasing an average new home with borrowed funds resulted in excessive risk exposure for households with average earnings and two children in 2023, but the decrease in housing loan rates at the end of the year resulted in an improvement in affordability for such households (Chart 18). The introduction of the HPS Plus programme did not, however, result in an improvement of the affordability of new homes, as the impacts of the increased subsidised loan amounts are offset by the discontinuation of non-repayable grants and VAT refunds. The affordability of pre-owned homes in Budapest (and other high-value, pre-owned homes) is, however significantly improved by the increase in the available amounts of preferential-rate loans. For households with two children and not committing to having more children, the affordability of housing has been significantly reduced after the restructuring of the HPS. For such families, the purchase of a new home or an average second-hand home in Budapest using a mortgage loan would represent an excessive financial strain.

Box 2**Details and expected impacts of the home renovation programme to be launched in June 2024**

The energy efficiency of the Hungarian housing stock is low, and the various support schemes made available during recent years have only facilitated improvement to a certain extent. 29 per cent of the energy efficiency certificates issued since 2016 are in the HH – that is, low, or even worse – category. Moreover, the geographical distribution of residential properties in terms of energy efficiency is extremely uneven in the territory of Hungary. The process of quality improvement through renewal is slow, and although the situation has improved somewhat during recent years as a result of certain targeted support schemes, the volatility of energy prices in recent years has underlined the need for and the importance of improvements in the energy efficiency of the domestic housing stock. The home improvement subsidy was available to households with children between January 2021 and December 2022, for up to 50 per cent of the improvement costs, but with a maximum amount of HUF 3 million. In that scheme, non-refundable subsidies were awarded in the total amount of HUF 705 billion, but only 43 per cent of this was used for the energy efficiency modernisation of real estate.⁸

A new home renovation programme will be launched in June 2024, exclusively for energy efficiency modernisation projects. The programme will also be available for households without children and can be used for upgrading detached houses constructed up until the end of 1990. The programme for the insulation of buildings, replacement of doors and windows and modernisation of domestic hot water and gas heating systems will be launched with a budget of HUF 108 billion. Primary energy saving of at least 30 per cent must be achieved with the renovations, which must be certified by presenting energy efficiency certificates both with the application for the aid and upon the completion of the work. Besides contributing HUF 1 million from their own funds, a customer may apply – via the residential MFB Point network, until 31 December 2025 – for an interest-free loan of up to HUF 6 million without providing real estate collateral, and the non-repayable grant may reduce the repayable amount, ex-post, by HUF 2.5–3.5 million, depending on the average earnings of given district's residents. The amount of the non-repayable grant may be increased by 5 per cent if the applicant achieves a 40-per cent energy efficiency improvement, instead of the prescribed 30 per cent. In districts where the amount of gross average earnings is higher than 110 per cent of the national average (HUF 571,200), the amount of the non-repayable grant will be HUF 2.5 million; where this amount is between 75 per cent and 110 per cent it will be HUF 3 million; and where the average earnings figure is below 75 per cent of the national average, the non-repayable grant will amount to HUF 3.5 million. For applicants with gross monthly income exceeding 130 per cent of the 2023 gross average earnings figure (HUF 742,560), however, the lowest amount of the non-repayable grant will be available regardless of their place of residence. The change of ownership of houses in need of renovation is restricted by the fact that the real estate concerned cannot be sold during the term of the loan agreement and that it must have been the applicant's permanent home or place of residence at least since 1 May 2024.

Proportion of apartments in 1-apartment buildings built before 1981 within the housing stock by settlement



Source: HCSO

⁸ For a more detailed discussion of the use of the home renovation subsidy for energy efficiency improvements see the May 2023 Housing Market Report.

The maximum maturity period of an interest-free loan under the home renovation programme is 10 years, and the repayment instalment may be between HUF 21,000 and 29,000 net of the amount of the non-repayable grant.

In February 2024, households concluded contracts with banks on market terms for an average amount of HUF 4.9 million for renovation and modernisation, with an average interest rate of 6.4 per cent. In the case of mortgage loans the monthly repayment instalment is HUF 54,000 and the average maturity period is 10.4 years. In the case of the maximum – HUF 6 million – loan amount available under the home renovation programme, with a 10-year maturity period, the repayment instalment would be an average of HUF 68,000 for applicants on market terms.

The conditions of the new home renovation subsidy may result in a regionally uneven uptake distribution. We analysed the territorial distribution of detached houses constructed before 1981, on the basis of the 2022 census data. The proportion of such properties within the total housing stock tends to be higher in smaller towns and villages in the regions near the borders of Hungary. The highest proportions of detached houses eligible for the new subsidy are to be found in Békés, Jász-Nagykun-Szolnok, Szabolcs-Szatmár-Bereg, Nógrád and Tolna counties; moreover, it is in the overwhelming majority of the districts of the same counties that the highest – HUF 3.5 million or HUF 3 million – non-repayable grants will be available.

In accordance with the MNB's proposal,⁹ the home renovation programme provides a targeted support for improving the energy efficiency of residential real estate, which is expected by the Government to enable the upgrade of some 20,000 detached houses for improved energy efficiency.

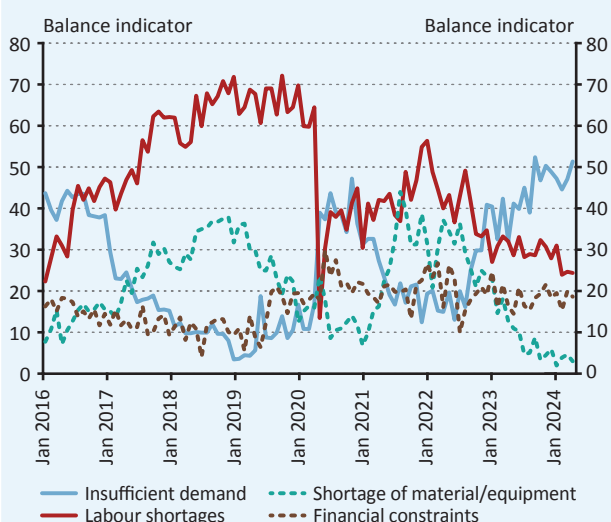
⁹ MNB: 144 points of Sustainable Balance and Catching-up, p. 154. Section 6: Announcement of a renovation programme, subject to the criterion of improved energy efficiency, for detached houses.

4 Supply of new homes

Occupancy permits were issued for a total of 18,600 newly built residential properties in 2023, reflecting a year-on-year decline of 9 per cent and resulting in a renewal rate of 0.41 per cent, which is significantly lower than the 1.05 per cent average for the other V4 countries. The number of building permits issued dropped by 39 per cent year-on-year. In 2024 Q1, the number of homes completed and building permits obtained continued to decline in year-on-year terms. The deadlines related to the application of the discounted 5-per cent housing VAT have been extended by another two years, which may stimulate the expansion of supply in the short term. Based on last year's drop in demand for new homes and the decrease in the number of building permits issued, a total of 15,600 new homes are expected to be completed in 2024, down 16 per cent year-on-year: the number of newly built homes has not been smaller since 2017. Insufficient demand continues to be the main limiting factor regarding the output of domestic construction companies; moreover, home construction costs increased by 9 per cent year-on-year in 2023 Q4, which was the second highest rate in the European Union. The number of people employed in the construction industry has remained at a historical high, but it is challenging for the sector to maintain this level. According to their responses to the Lending Survey, the banks tightened their housing project loan standards in 2024 Q1 as a consequence of the challenges facing the industry; for the next half year however, the banks expect unchanged lending conditions and an increase in demand for loans.

The 42,000 apartments being constructed in condominium projects in Budapest in 2024 Q1 was 5 per cent lower versus the same prior-year period. Of the above number of apartments, those being sold was 16 per cent lower year-on-year, while a considerable number of new dwellings were brought to the market during that period presumably partly as a result of an increase in demand. A total of 1,307 new condominium apartments were sold in Budapest in 2024 Q1, 84 per cent more than in the corresponding period of the preceding year. By contrast, a slowdown in sales in other towns and villages resulted in a 7-per cent expansion in the available supply. A total of 23 per cent of the homes available in Budapest were repriced in response to an increase in demand, 78 per cent of which were priced up by developer companies. The average price per square metre of newly constructed homes in Budapest was HUF 1.47 million in 2024 Q1, up 2.8 per cent year-on-year.

Chart 19
Constraints on construction output

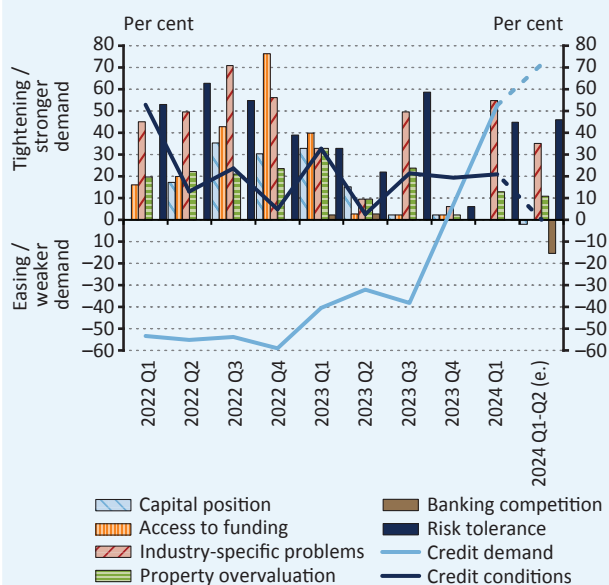


Note: Seasonally adjusted data.
Source: European Commission

4.1 LOW DEMAND AND RISING COSTS CONTINUE TO POSE CHALLENGES FOR CONSTRUCTION INDUSTRY PARTICIPANTS

Insufficient demand is mostly responsible for hindering the production of construction companies. In recent months, a large majority of around 45–50 per cent of construction companies cited insufficient demand due to falling private and public investment as the main constraint on construction output (Chart 19). As supply chain frictions have eased in recent years, shortages of raw materials and equipment have become less of a problem, with output at less than 5 per cent of companies hampered by this factor in recent months. Labour shortages were a problem for 25–30 per cent of the construction companies, while 15–20 per cent faced financial constraints. At its spring meeting, members of the Housing and Real Estate Market Advisory Board (LITT) emphasised that a considerable number of workers had left the construction industry in early 2024 as a consequence of a drop in the number of orders, which should not be allowed to turn into a trend.

Chart 20
Housing project loan conditions and changes in demand



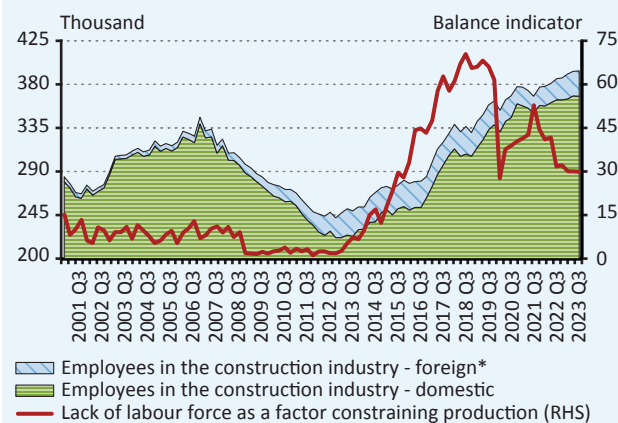
Note: The net ratio is the difference between tightening and easing banks, and between banks indicating stronger and weaker demand, weighted by the market share. The factors underlying credit conditions apply to commercial real estate loans overall.

Source: MNB, based on banks' responses

Amidst tightening conditions, banks observed an increase in demand in 2024 Q1 in relation to housing loan project loans. Based on responses to the Lending Survey, a net 21 per cent of the banks tightened the conditions of their housing project loans in 2024 Q1. The changing risk tolerance of the banks and challenges facing the industry were cited by the respondents as factors behind the tightening. The banks are not planning further tightening in these segments in 2024 Q2 and Q3, but they expect that the risk factors affecting the commercial real estate market will remain in place (Chart 20). In 2024 Q1, a net 52 per cent of the banks reported an increase in demand for loans to finance housing projects, and 71 per cent of the institutions expect a further increase looking forward to the next six months.

The number of employees in the construction industry continued to increase in 2023 Q4. In the wake of the 2008–2009 crisis, the number of employees in construction declined and, in addition to this, a large number of construction workers went to work abroad. Employment in the construction industry gradually increased thereafter and 370,000 people were employed in the domestic construction industry in 2023 Q4, along with another approximately 25,000 people with households in Hungary who were working in construction abroad (Chart 21). The moderate increase in the number of persons employed in the construction industry may be attributable to the severe shortage of skilled workers in the sector. The majority of companies are not planning redundancies, despite falling orders and rising costs, given the difficulty in finding workers.

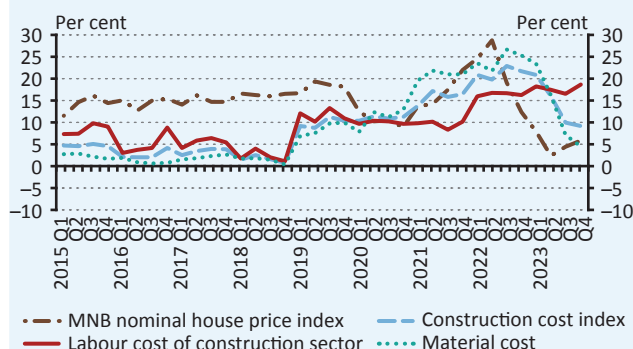
Chart 21
Number of employees in the construction industry



Note: * Based on employees with households in Hungary.

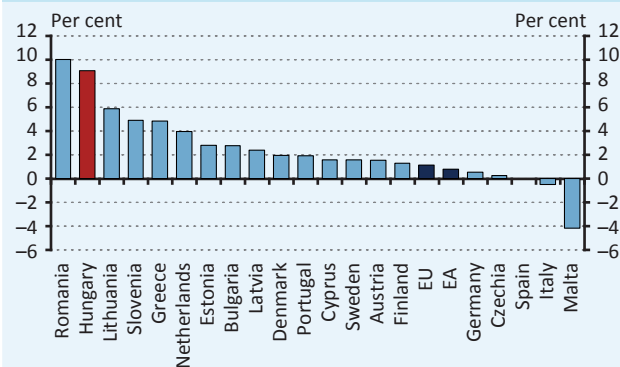
Source: HCSO, MNB, European Commission

Chart 22
Annual change in home construction costs and nominal house prices



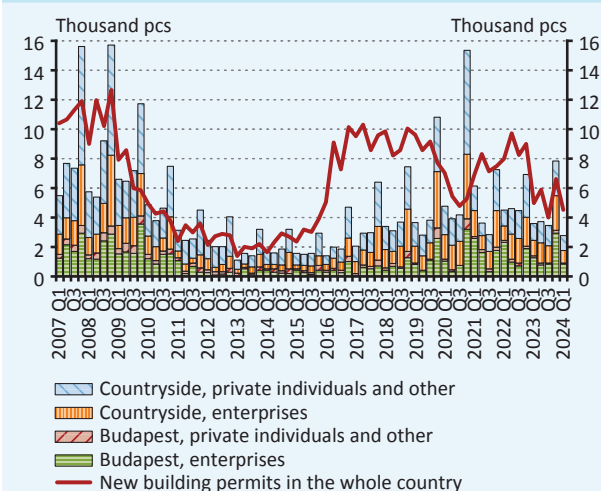
Source: HCSO

Chart 23
Annual change in home construction costs in EU countries in 2023 Q4



Source: Eurostat

Chart 24
Distribution of new completions by location and developer



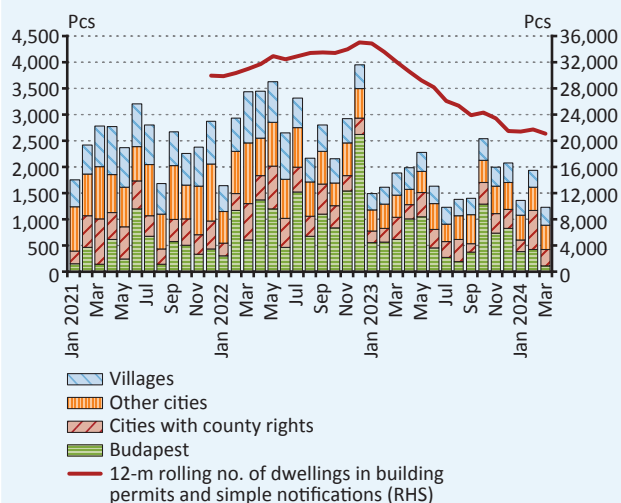
Source: HCSO

The annual growth rate of construction costs continued to increase, albeit at a moderately lower rate in 2023 Q4, and was still high by EU standards. The annual growth rate of the housing construction cost index dropped in Hungary from 20.8 per cent in 2023 Q1 to 9.1 per cent in 2023 Q4 (Chart 22). Within that, material costs rose by 4.5 per cent, while construction labour costs increased by 18.6 per cent year-on-year in 2023 Q4. According to the available data, the rise in home construction costs was still the second highest in the EU (Chart 23). The possible reasons for the above include a shortage of qualified workforce that has been observed in recent years and has been more severe than in other countries of the region, the pro-cyclical nature of public construction projects and a high proportion of imported construction materials. Home construction costs rose by an average of 1.1 per cent in the European Union and by an average of 0.8 per cent in the euro area.

4.2 RESIDENTIAL REAL ESTATE CONSTRUCTION VOLUME MAY REMAIN SUBDUED IN 2024 AS WELL

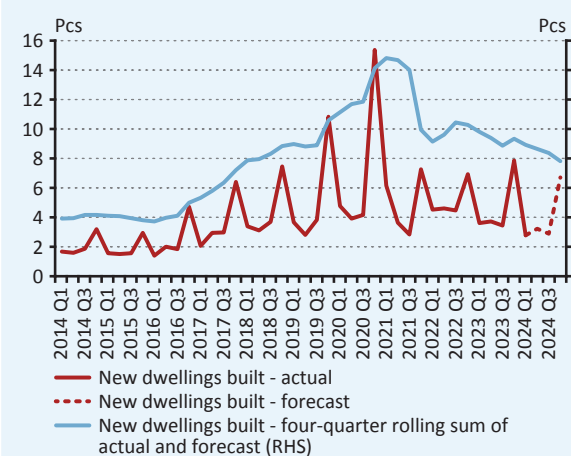
In 2023, the number of homes completed dropped by 9 per cent nationwide and by 4 per cent in Budapest, in year-on-year terms, with this trend continuing in 2024 Q1. Occupancy permits were issued for 18,600 newly constructed residential properties in Hungary in 2023, 9 per cent less than in 2022 (Chart 24). The number of homes completed dropped by 4 per cent in Budapest and by 12 per cent in other towns and villages in the period under review. In Budapest, 92 per cent of newly completed dwellings were constructed by businesses, while in other towns and villages this figure was only 49 per cent. The number of residential properties (detached houses) commissioned by natural persons dropped by 28 per cent in Budapest and by 17 per cent elsewhere in 2023, in a year-on-year comparison. The number of dwellings completed by businesses fell by 1 per cent in Budapest and by 5 per cent in other towns and villages in 2023. In 2024 Q1, 2,800 apartments were completed in Hungary, which is 23 per cent less than the figure for the same period of the previous year, and a lower quarterly figure was last seen in 2017 Q1. At the end of the first quarter, the 12-month rolling number of homes completed was 9 per cent lower than the figure from one year earlier. The number of new residential completions in Hungary in 2023 equalled 0.41 per cent of the end-2022 housing stock. This renewal rate is less than half of the European average (0.89 per cent) and the average of the V3 countries (1.05 per cent) (Annex Chart 14).

Chart 25
Number of homes covered by building permits issued and simple notifications



Source: HCSO

Chart 26
Forecast for the number of homes with occupancy permits



Source: HCSO, MNB

The number of construction permits issued fell significantly in all settlement types and for all residential building types. The 12-month rolling number of dwelling units according to building permits issued and simple residential construction notifications filed has been decreasing since January 2023 in Hungary (Chart 25). Building permits were issued for a total of 21,500 new dwellings in 2023, down 39 per cent versus 2022. The number of dwellings covered by building permits dropped by 40 per cent for multiple-home buildings and by 35 per cent for single-home buildings (detached houses), for which building permits are required, in an annual comparison. The number of planned residential real estate projects fell by even more than the number of multiple-home building permits simple notification with a decline of 42 per cent. Building permits were issued for a total of 8,000 new dwellings in Budapest in 2023, 41 per cent less than in the previous year. In terms of type of settlement, the number of homes for which a permit was issued fell the most, by 43 per cent, in villages, but there was also a 38-per cent decline in towns without county status and a 27-per cent drop in towns with county rights, in year-on-year terms. There was no turnaround in interest in housing construction at the beginning of 2024: in the first quarter of the year, 4,500 homes received building permits nationwide, which is 9 per cent lower than the figure for the same period of the previous year.

The decrease in the number of completed newly constructed homes may continue 2024. Based on our forecast, a total of 15,600 new homes are expected to be completed in 2024, down 16 per cent year-on-year: the number of newly built homes has not been lower since 2017 (Chart 26). A decrease in the number of newly completed homes is expected primarily because of last year's drop in demand for new homes and a decrease in the number of building permits issued. Somewhat more occupancy permits may be issued in the second quarter than the number indicated by our model-based projection, because from July 2024 every newly completed home must meet the nearly-zero energy consumption requirement. Based on the Government's announcement in early May 2024, the deadlines related to the application of reduced housing VAT will be extended by another two years: in the case of a building permit obtained by 31 December 2026, new housing can be sold with a VAT rate of 5 per cent until 31 December 2030, which in the short term may encourage an expansion of supply.

Box 3**Key messages from the 2024 spring meeting of the housing market section of the housing and real estate market advisory board**

At its April 2024 meeting, the Housing and Real Estate Market Advisory Board (LITT) discussed the current housing market situation and processes. The Board paid special attention to trends in housing demand, housing developments, home-making programmes and financing prospects.

Family support programmes

The number of applications filed in the two months since the launch of the HPS Plus at the beginning of 2024 indicates significant demand for the programme. Nearly 2,000 applications were submitted in the first two months, with the average amount per applicant at HUF 26 million. 86 per cent of the amount applied for is intended for purchasing pre-owned homes, 13 per cent for purchasing or building new homes and 1 per cent for extensions of existing homes. From a demographic perspective, it is favourable that 66 per cent of the HPS Plus applicants have no children and more than half of them wish to have two or more children. One fifth of the applicants intend to borrow loans on market terms as well, alongside the subsidised loan. Besides the HPS Plus, the Village HPS is also available in preferred small villages of populations below 5,000, within the framework of which a total of 574 applications were submitted in the first two months of 2024, for an average amount of HUF 8.3 million. 64 per cent of the total amount applied is intended for the purchase of pre-owned residential properties, 33 per cent for the modernisation or extension of existing residential properties and 3 per cent for the construction of new dwellings.

Housing projects and housing market situation

After bottoming out in 2023, demand for new dwellings began to pick up at the beginning of 2024, which is regarded as an indication of growing confidence in the housing market; however, the initial impetus in the new year decelerated in February and May according to some analysts. A number of prerequisites are still not available for a substantial increase in demand and supply. The most important factor on the supply side is the approaching time limit for the application of the 5-per cent VAT on homes, while on the demand side it is the availability of easily affordable loans for a wide range of potential customers. The experts propose that the 2024 and 2028 time limits for application of the reduced housing VAT be lifted and that the measure be transformed into one for an indefinite period of time. They argue that the end-2024 deadline for obtaining building permits is driving land prices up. As the deadline is approaching, building site owners have begun to significantly increase their prices: HUF 200,000 per square metre site prices are not uncommon now and this will eventually be reflected in increased new home prices. At the beginning of May 2024, the Government announced that the deadlines related to the application of reduced housing VAT will be extended by another two years. The measure will temporarily reduce pressure to obtain building permits and raise land prices, but market players will face similar problems again in two years. In addition to fixing the preferential housing VAT for an indefinite period, another relevant consideration is that housing development market participants are now thinking in terms of 3–4 year cycles, while projects of multiple phases may take 6–8 years to implement; therefore, regulatory measures covering only a few (2–3) years can encourage the maintenance of supply for only brief periods, contributing to the cyclical nature of the sector and hindering the development of stable supply of a substantial volume. Some experts claim that some 6,000 new homes are expected to be sold in Budapest in 2024, about one quarter less than the average number of units sold in the recent years which did not feature particularly outstanding average sales figures. Some experts note that the recently experienced increase in demand has been driven by investors' demand. Some analysts presume that gains earned from government securities are being invested in dwellings and claim that it does not necessarily generate healthy, steady growth in demand. An increase in the number of dwellings purchased for use as owner-occupied homes would require loans with affordable rates to be made available for a wide range of customers. Market participants emphasise that the HPS Plus scheme did not differentiate between new and pre-owned homes; experience from the first two months shows that 13 per cent of the applications are linked for the purchase or construction of new dwellings, which may dampen the programme's economic stimulus.

Boosting consumer confidence is an important factor for housing market demand, which is also confirmed by enquiry/contact data relating to housing advertisements in connection with the positive announcements of the recent period (HPS Plus, Home Renovation Programme). Regionally varied patterns are observed in potential customers' responses to housing advertisements, reflecting the labour market and housing market impacts of large industrial investment projects: The largest increase (47 per cent) in the number of contacts and enquiries in response to housing advertisements was recorded in Csongrád-Csanád county, as a consequence of the industrial development projects announced at the end of 2023. On the other hand, the propensity to sell residential real estate, as measured in terms of the number of advertisements posted, decreased in the past year in the counties of Csongrád-Csanád and Hajdú-Bihar, where the largest industrial development projects are taking place.

Alongside the decrease in the number of home purchase transactions and the stagnation of house prices, a significant increase in home rents was recorded in 2023. This encourages an increase in investment demand in the housing market, which was actually experienced by developers in their sales transactions.

Financing

Residential construction projects launched in 2023 had access to funding. On the one hand, experienced and well-capitalised developers launched projects, and on the other hand, market analysts argue that the Baross Gábor Loan Programme provided the sector with a substantial impetus because it would not have been possible to conclude so many loan agreements and start so many development projects on a HUF basis, with interest rates pegged to the reference rate. As to the future, some experts claim that interest rates may sink to such a level by the end of 2024 where it will be possible to finance real estate projects in HUF on a market basis as well.

The experts emphasise that the existing domestic housing financing and subsidy schemes and the relevant legal regulations do little to encourage mobility between various types of dwellings that should be justified by the life cycles of individuals and families. The possibility of transferring pledges and other collaterals – backing up loans and subsidies – between properties could promote the sale and purchase firstly of pre-owned and secondly of new dwellings.

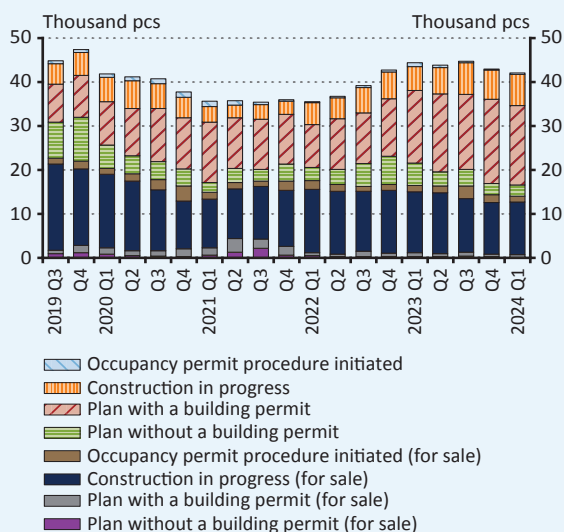
Regulation

In relation to the provisions laid down in Act XC of 2023 on the General Rules for the Entry and Residence of Third-Country Nationals ('golden visa'), they propose that the residential real estate investments prescribed for foreign citizens as a prerequisite for acquiring residence permits should be channelled to the market of newly built dwellings, which might be justified from the perspective of economic policy considerations as well. The current regulation prescribes investment in residential property contained in the land registry as a prerequisite for foreign citizens applying for residence permits. However, this is only feasible in practice in the case of pre-owned homes, because home developers tend to sell the overwhelming majority of the newly constructed dwellings by the time they are entered in the land registry. Channelling such foreign investments to the market of new residential real estates would offer a number of benefits: it would boost the economy and the construction industry, foreign investment demand would not directly appear in the market of pre-owned homes as a factor driving prices up, and foreigners' purchases for investment could contribute to forming a basis for the development of an institutional rental home stock based on market terms and conditions.

Market participants argue that an expansion of the brown-field programme and an improvement in its transparency would also help boost the supply side. Participants estimate that 30,000 dwellings might be constructed in brownfield areas; however, such development projects are concentrated among a handful of developers and can thus be implemented in multiple phases, over longer (5–10-year) periods. The involvement of additional developers and areas could help reduce the concentration of the projects and make it possible to construct more new homes in urban areas in need of revitalisation.

Representatives of the public sector emphasise the importance of the improvement in the quality of residential real estates, which they wish to promote through the Home Renovation Subsidy to be launched with a starting budget of HUF 108 billion. State organisations are paying particular attention to increasing the availability housing in the increasingly industrialised rural towns as well, in connection with the prevailing industry policy.

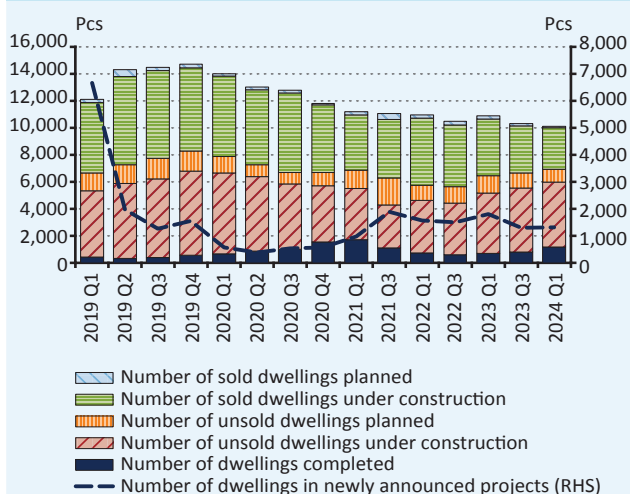
Chart 27
Housing stock under development in Budapest



Note: Based on projects for more than four new homes.

Source: ELTINGA – Budapest Housing Market Report, Building Permit Monitor

Chart 28
Number of dwellings in new condominium projects for sale in the countryside



Note: Based on condominium developments comprising more than ten dwellings.

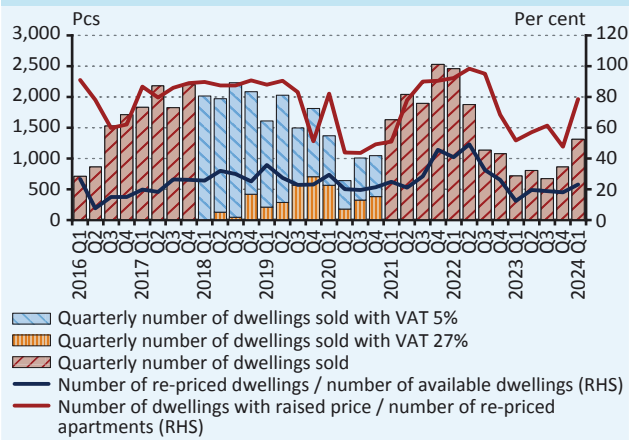
Source: Eltinga – Rural Housing Market Report

4.3 UPTURN IN DEMAND ON THE NEW HOMES MARKET AS WELL IN 2024 Q1

While the housing stock under development contracted further, a considerable number of new dwellings were brought to the market in Budapest during 2024 Q1. Condominium projects involving a total of 42,000 apartments were in progress (with at least the process of obtaining their building permits having been started) in Budapest in 2024 Q1, representing a decline of 5 per cent year-on-year and 2 per cent relative to 2023 Q4. In the case of 44 per cent of the dwellings under construction, the building permits have already been obtained, but construction has not started. This stock increased by 7 per cent compared to 2023 Q1. One third of the dwellings were being sold during 2024 Q1, down 16 per cent on the corresponding period of 2023 (Chart 27). While in 2023 800–900 new homes came to market on a quarterly basis, the sale of 1,519 homes started in 2024 Q1, thanks to improvements in fundamentals, and this figure was 70 per cent higher year-on-year (Annex Chart 15), bringing the number of new homes available for purchase to 6,543 during the period under review. With a continued increase in demand, building permits obtained in the past will enable developers to adapt more quickly with their supply, even if only through dwellings that can be sold right from the drawing board.

The available supply of new homes has moderately increased in rural Hungary since September 2023. In towns and villages outside Budapest, there were 8,954 housing projects in the development or sales phase in 2024 Q1, representing a 12-per cent year-on-year decrease. In 2023 Q4 and 2024 Q1, a total of 1,203 new condominium flats were sold in the countryside, down 5 per cent year-on-year. 1,317 new dwellings were placed on the market during the same period, however, increasing the stock of available dwellings 7 per cent to 6,923 flats in March 2024 (Chart 28). The largest number of dwellings under development is in projects in Somogy county, with around 1,497 homes, followed by projects in Győr-Moson-Sopron and Pest counties, with 1,201 and 1,068 homes, respectively.

Chart 29
Number of new homes sold in Budapest, and ratio of repricing within the advertised new homes



Note: Based on projects for more than four new homes.

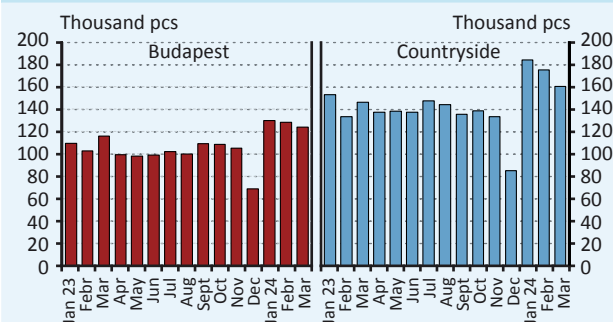
Source: ELTINGA – Budapest Housing Market Report

Demand already picked up in the Budapest market of new dwellings in early 2024. Turnover in Budapest's new homes market reflected increased activity in 2024 Q1, as 1,307 new condominium flats were sold in Budapest (under preliminary and final contracts in aggregate), 84 per cent more year-on-year and 53 per cent more quarter-on-quarter. The rise in the number of sale and purchase transactions was driven by the increase in real wages, improving consumer confidence and a decrease in housing loan rates. In the quarter under review, as a result of mounting demand, the share of repriced homes increased from 18 per cent in the previous quarter to 23 per cent of the total number of available homes, which is still low compared to the levels measured previously (Chart 29). Within repriced homes, the proportion of homes with a raised price rose by 31 percentage points to 78 per cent in one quarter. The average price per square metre of newly constructed homes in Budapest was HUF 1.47 million at the end of 2024 Q1, up 2.8 per cent year-on-year.

5 Charts in the annex

1 HOUSING MARKET DEMAND AND HOUSE PRICES

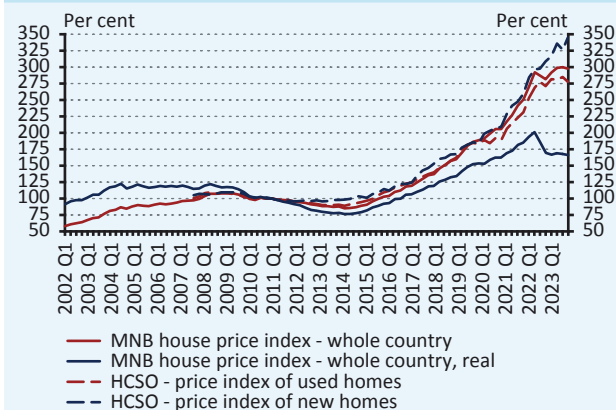
Chart 1
Demand for apartments and houses for sale at the advertising site ingatlan.com



Note: The number of disclosed phone numbers and calls initiated through mobile application.

Source: Ingatlan.com

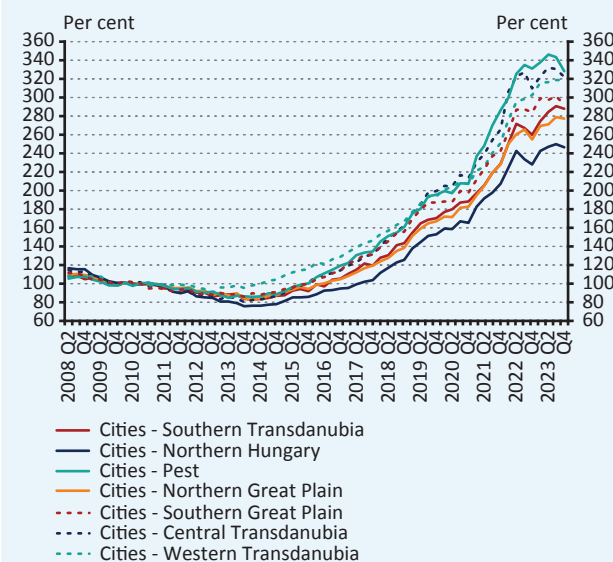
Chart 2
Nominal and real MNB house price index and the HCSO house price indices (2010 = 100 per cent)



Note: Real price index deflated by the consumer price index.

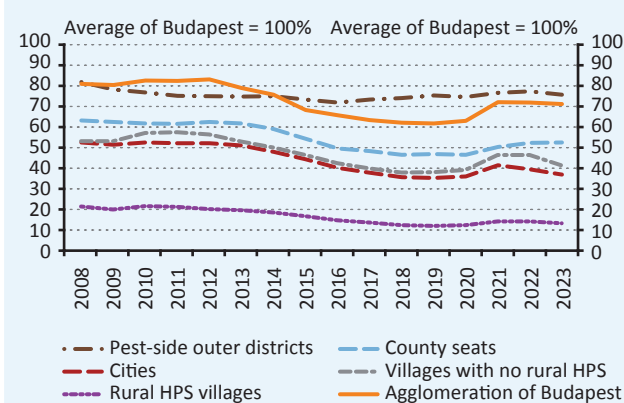
Source: MNB, HCSO

Chart 3
Nominal MNB house price indices of towns of various regions (2010 = 100 per cent)



Source: MNB.

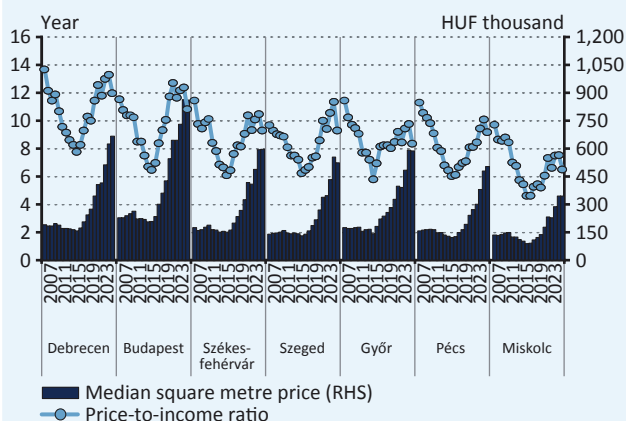
Chart 4
Average square metre price by type of settlement



Note: Outer districts of Pest: IV, XV, XVI, XVII, XVIII, XXI, XXIII.

Source: NTCA, MNB.

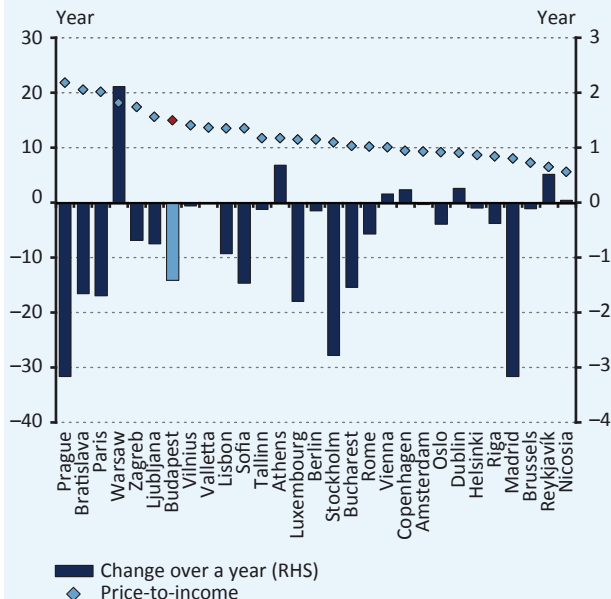
Chart 5
Price-to-income ratio in Hungary's regional centres



Note: The price-to-income ratio is the ratio between the price of a 75-square metre median real property in the fourth quarter (new and used total) and average fourth quarter net income of such households. Average incomes are county-level data.

Source: HCSO, MNB

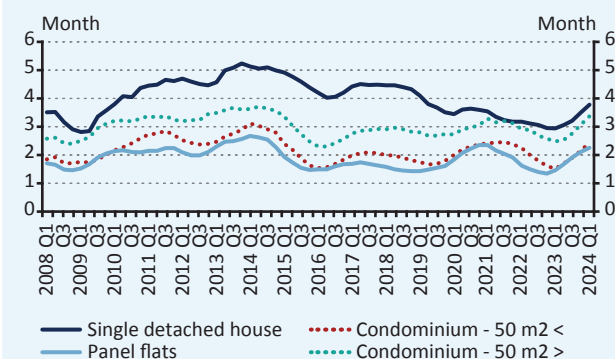
Chart 6
Price-to-income ratios in European capitals (2024 Q1)



Note: The price-to-income ratio is the ratio of the average house prices outside the city centre to the national average wage. Calculations based on 75-square metre homes. Change between 2022 and 2023 Q3. Budapest is marked with a different colour.

Source: Eurostat, numbeo.com

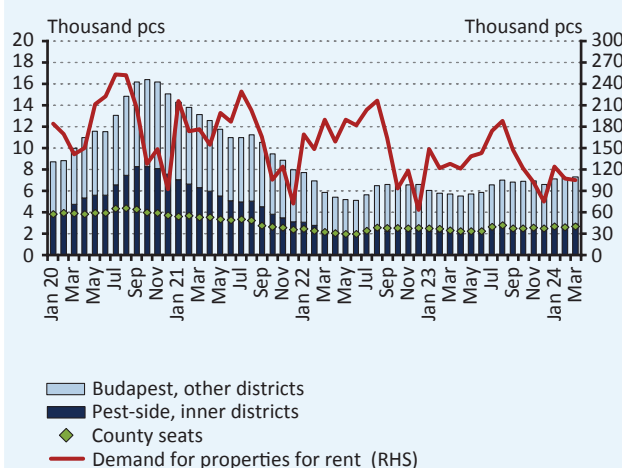
Chart 7
Median time to sell residential property by type of property



Note: Time from the start of advertising to sale. Annual rolling averages.

Source: MNB, housing agent database

Chart 8
Supply of residential properties to let at ingatlan.com on the last day of the given month and demand for properties for rent in that month

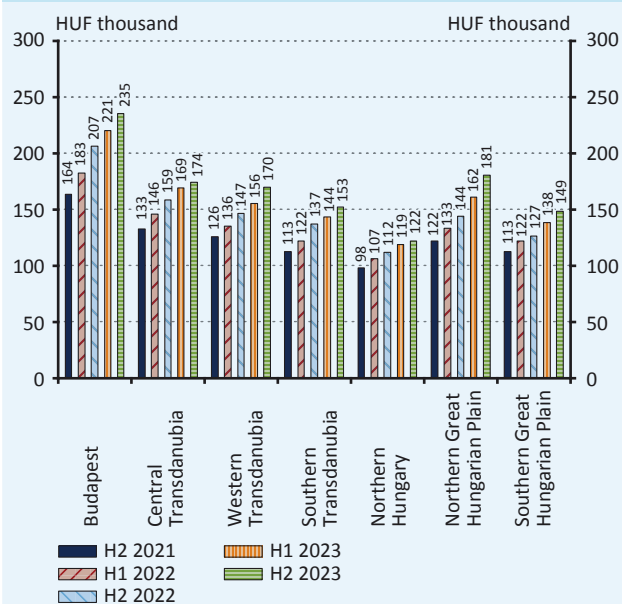


Note: Demand: number of telephone number disclosures and phone calls initiated from mobile application on the ingatlan.com advertising site. Pest, inner districts: V, VI, VII, VIII, IX.

Source: Ingatlan.com

Chart 9

Average monthly rents based on flats to rent advertised on ingatlan.com

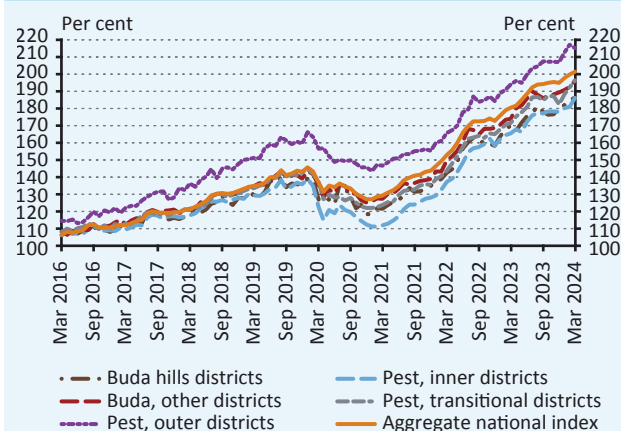


Note: Based on the ads removed from the page in the given period.

Source: HCSO-ingatlan.com

Chart 10

Rent indices of groups of districts in Budapest based on flats to rent advertised on ingatlan.com (2015 = 100 per cent)

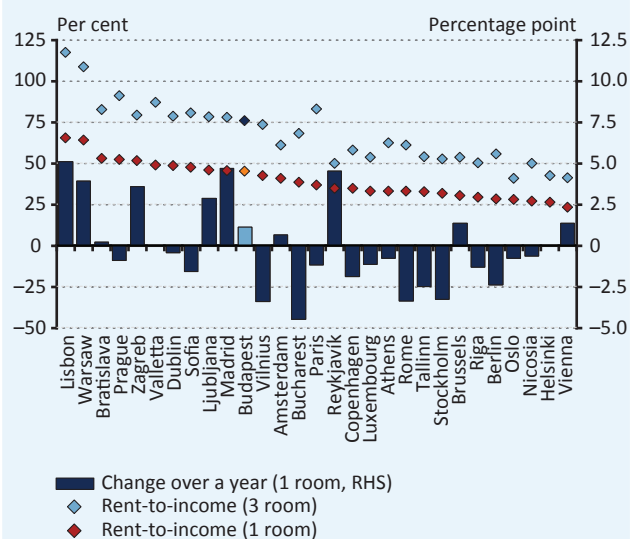


Note: Buda hills districts: I, II, XII, Buda, other districts: III, XI, XXII, Pest, inner districts: V, VI, VII, VIII, IX, Pest, transitional districts: X, XIII, XIV, XIX, XX, Pest, outer districts: IV, XV, XVI, XVII, XVIII, XXI, XXIII.

Source: HCSO-ingatlan.com

Chart 11

Rent-to-income ratio in European capitals (2024 Q1)

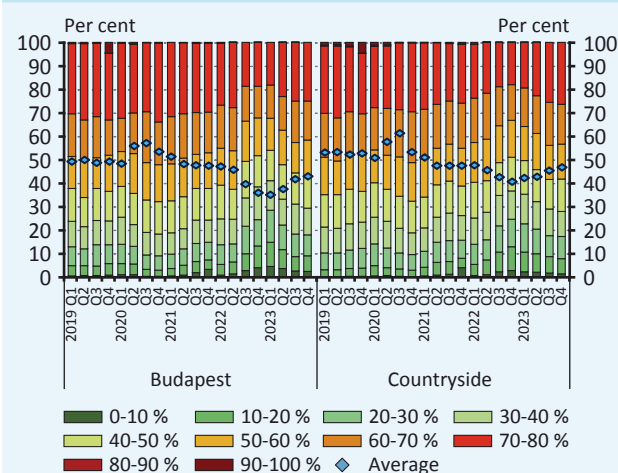


Note: The rent-to-income ratio is the quotient of the rent for a typical rental flat in the capital outside the city centre and the national monthly net average income. Change between 2022 and 2023 Q3. Budapest is marked with a different colour.

Source: Eurostat, numbeo.com

2 HOUSING LOANS AND HOUSING SUBSIDIES

Chart 12
Distribution of new housing loan disbursement by LTV

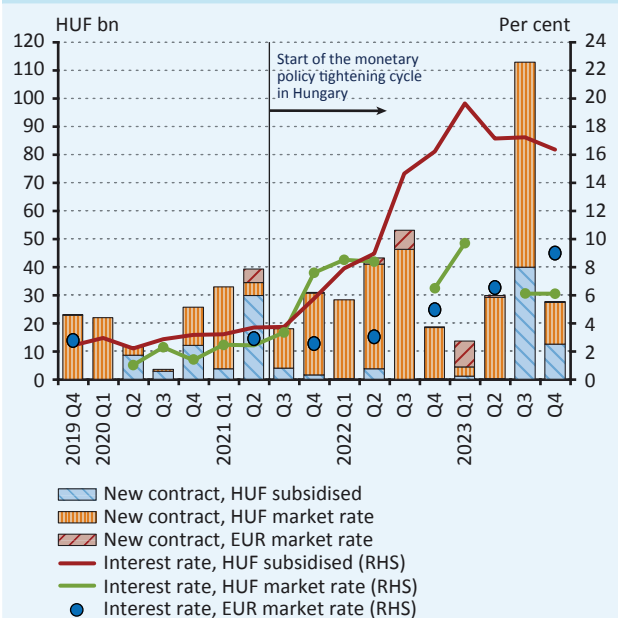


Note: Volume-based distribution.

Source: MNB

3 SUPPLY OF NEW HOMES

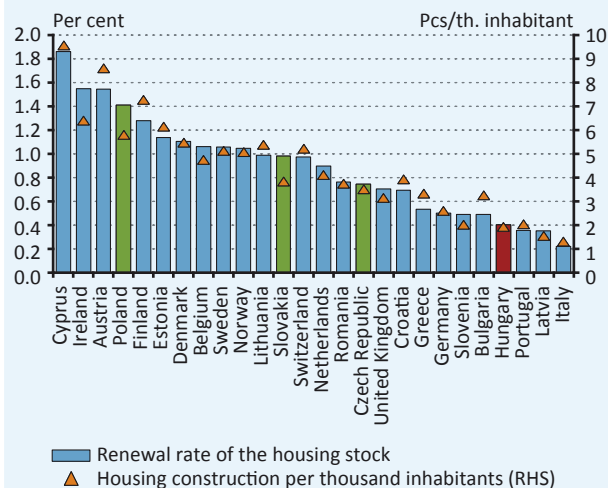
Chart 13
Housing project loan contracts of credit institutions and average transaction interest rates on new housing project loans



Note: Average transaction interest rate weighted by the contracted amount. Subsidised housing project loans fall under the following schemes: Funding for Growth Scheme, Széchenyi Investment Loan (Plus, Go!, Max), Baross Gábor Loan Programme. Where no average interest rate is indicated in the chart, the data supply for the period did not contain new loan agreements with interest rate information.

Source: MNB

Chart 14
Annual renewal rate of the housing stock and home construction per thousand inhabitants in Europe

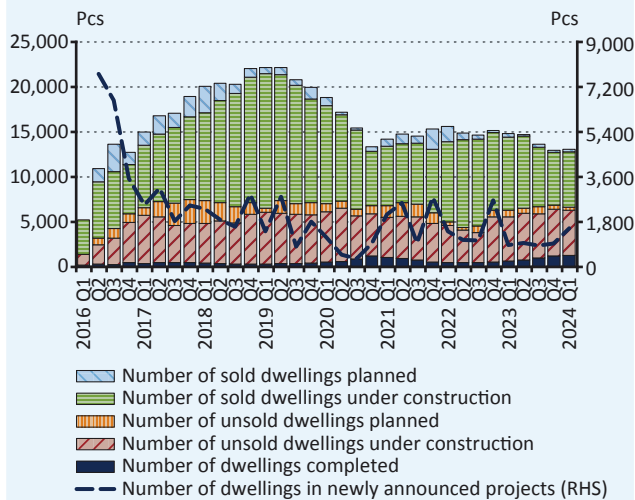


Note: The reference year is 2020 for Belgium and Italy, 2021 for Switzerland, 2022 for Austria, Cyprus, the United Kingdom, Croatia, Germany, Slovenia and Sweden, and 2023 for the other countries.

Source: ECB, national statistical offices, MNB

Chart 15

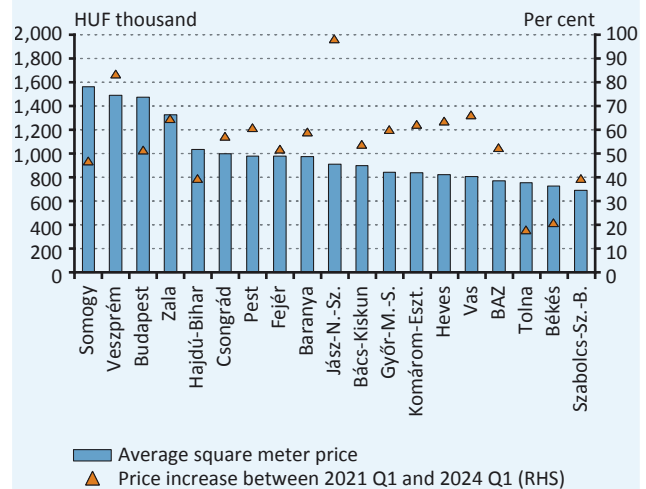
Availability of homes in new projects under development and sale in Budapest and the number of new announcements of dwellings



Note: Based on projects for at least four new dwellings in Budapest.
Source: ELTINGA – Budapest Housing Market Report

Chart 16

Average square metre price of new dwellings in 2024 Q1

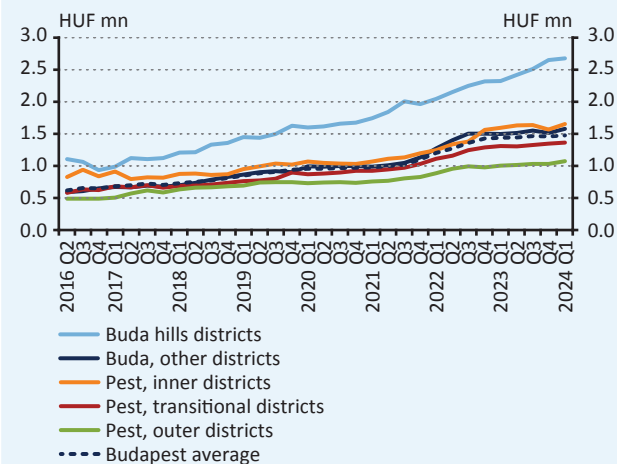


Note: Based on condominium developments comprising more than ten dwellings in rural areas and more than four dwellings in Budapest. *In the case of Tolna county: relative to 2022 Q1 data.

Source: ELTINGA – Budapest Housing Market Report, Rural Housing Market Report

Chart 17

Average square metre price of available new dwellings in Budapest



Note: Based on projects for at least four new dwellings in Budapest.
Buda hills districts: I, II, XII, Buda, other districts: III, XI, XXII, Pest, inner districts: V, VI, VII, VIII, IX, Pest, transitional districts: X, XIII, XIV, XIX, XX, Pest, outer districts: IV, XV, XVI, XVII, XVIII, XXI, XXIII.

Source: ELTINGA – Budapest Housing Market Report

Count István Széchenyi

(21 September 1791 – 8 April 1860)

Politician, writer, economist, minister for transport in the Batthyány government whom Lajos Kossuth referred to as 'the greatest Hungarian'. His father, Count Ferenc Széchényi established the Hungarian National Museum and Library; his mother, Julianna Festetich was the daughter of Count György Festetich, the founder of Georgikon, an institution for the teaching of agricultural sciences.

With his ideas – whose message remains relevant even today – and his activities both as a writer and a politician, István Széchenyi laid the foundation for modern Hungary. He is one of the most eminent and significant figures in Hungarian politics whose name is associated with reforms in the Hungarian economy, transportation and sports. He is also known as the founder and eponym of numerous public benefit institutions, a traveller all across Europe and an explorer of England as well as the champion of economic and political development at the time. István Széchenyi recognised that Hungary needed reforms in order to rise, and considered paving the way for a Hungary set on the path of industrialisation and embourgeoisement to be his calling in life.

Published in 1830, his *Credit* outlined the embourgeoisement of Hungary and summarised its economic and social programme. Count Széchenyi intended this writing to make the nobility aware of the importance of the country's desperate need for a social and economic transformation. Another work of his, *Stádium* [Stage of Development] (1833) listed the cornerstones of his reform programme in 12 points, including the voluntary and compulsory liberation of serfs; the abrogation of *avicitas* (inalienable status of noble property); the right of possession for the peasantry; and the freedom of industry and commerce. This work of Széchenyi already conveyed the idea of equality before the law and the general and proportionate sharing of taxation.

After the revolution in 1848 István Széchenyi joined the Batthyány government and as minister embarked vigorously on implementing his transportation programme.

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