HOUSING MARKET REPORT

2019

NOVEMBER

‘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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(November 2019)

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The housing market represents a key area at the level of individual economic operators (households, financial institutions), as well as at the level of the national economy. Housing market developments are closely related to financial stability issues and fundamentally determine the short- and long-term prospects of economic activity. Overall, it can be stated that the housing market is intrinsically linked to every area of the national economy. Housing market developments, in particular the volatility of housing prices, influence the savings and consumption decisions of the household sector through its financial position, and, moreover, influence the portfolio, profitability and lending activity of financial institutions through the stock of mortgage loan collateral.

The 'Housing Market Report' aims to provide a comprehensive view of current trends on the Hungarian housing market and to identify and present the macroeconomic processes that influence housing market supply and demand. With this publication, the Magyar Nemzeti Bank regularly presents the relevant developments on the Hungarian housing market on a semi-annual basis.

The property market and within that the housing market is of key importance for the Magyar Nemzeti Bank in relation to fulfilling its primary tasks, based on inflation and economic considerations as well as financial stability factors. The development of the property market supply directly influences economic growth, while oversupply and inadequate supply can also have serious consequences for financial stability. Housing price appreciation improves the financial status of households, prompting them to increase consumption, which influences both economic growth and inflation. Price appreciation also boosts the lending capacity of financial institutions by reducing their expected losses, which again invigorates the economy through lending growth. The correlation between the mortgage loan market and housing prices deserves particular attention: during business cycles, a mutually reinforcing relationship can develop between bank lending and housing prices.

The 'Housing Market Report' provides a deeper insight into the factors behind market developments and the system of interactions between individual market agents by presenting a complex, wide-ranging array of information. The housing market already features in the publications of central banks, both in Hungary and at the international level, but typically from the perspective of the main topic of the respective publication. Consequently, the 'Housing Market Report' represents a unique central bank publication at the international level as well, due to its integrated presentation of the macroeconomic and financial stability factors of the property market. The information used by the publication includes the following:

- *The presentation of the macroeconomic environment influencing the housing market is based on the information contained in the MNB's Inflation Report.*[1] *Key statistical variables relating to the housing market include changes in the volume of gross value added, and developments in real income and unemployment, as well as changes in the yield environment.*

- *The analysis of current housing market developments primarily relies on the information provided by the Hungarian Central Statistical Office. Information on changes in housing market turnover and housing prices can be divided into the differences between new and used housing market developments. In addition to this, data on the regional heterogeneity of the housing market are also used.*

- *The analysis of the residential mortgage loan market primarily relies on the balance sheet data of credit institutions and the interest statistics collected by the MNB; information on the qualitative features of lending developments collected in the Lending Survey*[2] *is also used.*

[1] Magyar Nemzeti Bank, Inflation Report: http://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

In 2019 H1, Hungarian house prices continued to rise. In Q2, the annual growth rate of house prices amounted to an average 17.1 per cent at a national level, exceeding the 16.3 per cent recorded at the end of 2018. In Budapest, however, price dynamics slightly declined from 24.8 per cent at the end of 2018 to 22.5 per cent. According to preliminary data for 2019 Q3, the growth rate of house prices continued to decline in Budapest and also decreased on average nationwide.

The demand side of the Hungarian housing market continues to be supported by high employment, increase in real incomes, a high level of savings and a low interest rate environment. Despite that, in 2019 H1 the number of housing market transactions in the capital dropped by a significant 29 per cent year-on-year, mainly reflecting a major downturn in Q2. This may also have been due in part to the high number of preliminary contracts made in recent years in the market of new homes, which will appear in transaction statistics only later. In Budapest, a slight increase in the median bargain and the median time on the market of flats may also point to a decline in demand. According to the Housing and Real Estate Market Advisory Board (LITT), the launch of the Hungarian Government Security Plus (MÁP+) may also explain the falling demand for residential property through investor interest. The number of transactions stagnated in rural towns and increased by 6 per cent in villages year-on-year, indicating sustained demand in rural areas.

In 2019 H1, the volume of new housing loans continued to grow by some 20 per cent year-on-year. The volume of new lending shifted towards longer-term interest rate fixation. The number of signed contracts slightly decreased according to the latest data. The latter may be explained by the crowding-out effect accompanying the prenatal baby support launched in July, which is partly for housing purposes. Households' demand for credit is also supported by favourable financing costs, government support programmes (HPS, rural HPS, prenatal baby support).

In 2019 Q1, the number of new housing completions increased substantially, followed by a temporary drop in Q2 due to widespread delays to residential projects. In the capital, 55 per cent of new homes under development have suffered delays. Substantial growth in completions is likely to continue for the rest of the year at a national level, with new supply expected to peak in 2019 with 19.8 thousand new homes. In 2020, delays may keep the level of new completions high at 18.5 thousand units, while a decline is already expected from 2021, with 16 thousand new completions forecast for that year. Housing supply cannot keep up with demand. In Budapest, tightening supply is shown by the fact that the number of homes under development fell to 20.5 thousand in 2019 Q3 from 21.9 thousand in the previous quarter; additionally, the number of units in new projects announced in Q3 was the lowest in recent years at 770 homes, compared to the quarterly average of 2 to 3 thousand new homes since 2016. Supply is also being tightened by the VAT reset to its previous higher rate, strong cost-side pressure, and a shortage of skilled labour. The renewal rate of the Hungarian housing stock is low by regional standards. Budapest is lagging even further behind, with an annual renewal rate of a mere 0.4 per cent compared to Vienna's 1.5 per cent.

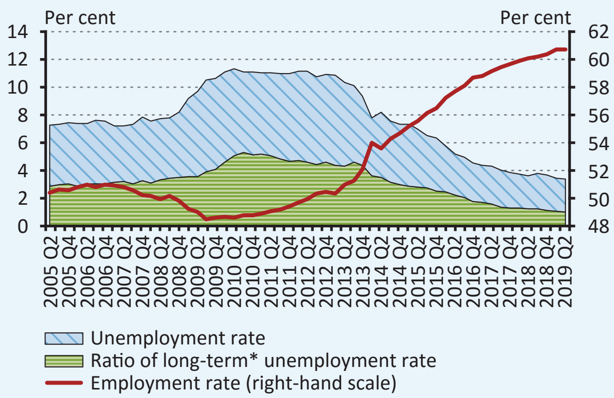
Looking ahead, LITT members forecast a significant fall in the supply of new homes from 2021 onwards. They believe that developing construction capacities could reduce the construction costs of new homes and increase supply as a result. As additional cost drivers, they pointed out strict requirements across Europe, and high material prices due to the absence of any substantial production of building materials in Hungary. They also underlined the need to develop the rental market as a way to create more housing opportunities.

2 Macroeconomic environment

In 2019 H1, demand remained high in the housing market, supported both by favourable income trends and government measures aimed at home starters. The fundamental trends in wages underlying levels of disposable income remained strong, and households' financial status continued to improve thanks to a historically high propensity to save. In addition, new housing loans continued to be disbursed at a brisk pace in 2019 H1. Nevertheless, over the past quarters households have become less motivated to purchase homes, although such motivations remain high by historical standards. Overall, long-term income prospects, as well as trends in lending and government measures aimed at home starters may have a positive impact on housing market demand.

In 2019 H1, new completions remained at approximately the same level as in the same period of the previous year, as a result of which supply in the housing market gave a more muted response to the strong demand environment. Supply-side response in the sector is still slower compared to the previous property market cycle, which can primarily be explained by the difficulties in attracting skilled labour. The growth rate of house prices continues to outstrip the statistically measured increase in construction costs, which could in itself have a positive effect on the development mood; yet, as a result of labour market shortages and low productivity, supply remains subdued. Although the proportion of companies facing shortages of building materials decreased in 2019, about one-third of all developers are still negatively affected. Taking effect in 2020, the rise in the VAT rate will also have a negative impact on developments. Demand for housing could be boosted over the coming years by the family protection measures announced at the start of this year for the support of home starters, while it is likely to be dampened by rising cost and price levels as well as the MÁP+, which discourages investors from making home purchases.

Chart 1
Unemployment and employment



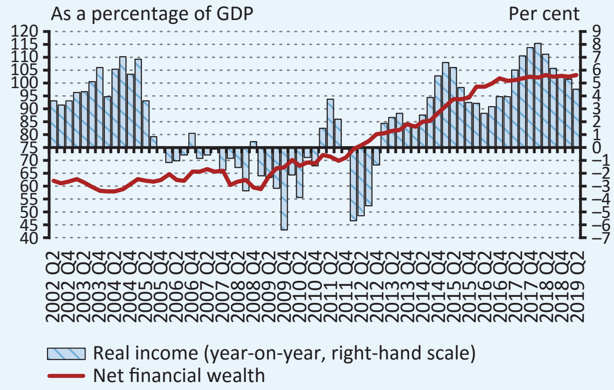
*Note: * Unemployed for more than 1 year.*
Source: HCSO.

2.1 HUNGARIAN HOUSING MARKET DEMAND

In 2019 H1, demand remained strong in the Hungarian housing market, supported by an increase in household incomes, as well as by trends in lending, a favourable financing environment, and the increasing use of government programmes stimulating demand in the housing market. The high demand in the housing market generated a substantial increase in house prices, accompanied by a continued increase in the volume of new housing loans.

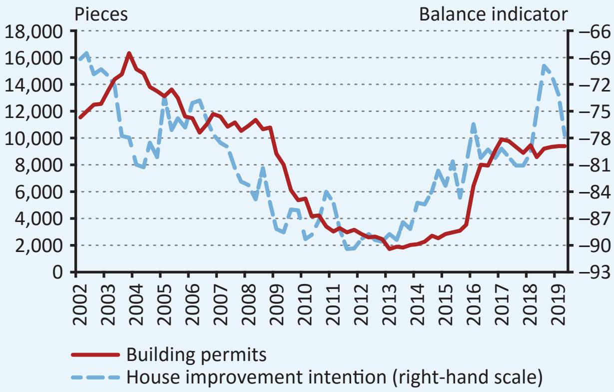
Favourable conditions in the labour market support demand in the housing market. Housing trends are fundamentally determined by labour market prospects. While demand for labour remains high, the tightness of the labour market has already shown signs of easing recently. In the coming quarters, employment could grow at a decelerating rate, and stabilize at a high level. At the same time, through improvements in long-term income prospects, historically low unemployment supports households' willingness to invest, which in turn boosts demand in the housing market (Chart 1).

Chart 2
Changes in households' financial assets, liabilities and real income



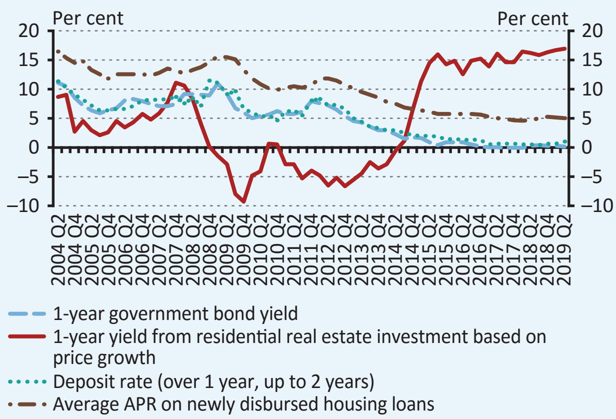
Source: HCSO, MNB.

Chart 3
Changes in building permits issued and households' motivations for home purchases/upgrades



Source: HCSO, MNB.

Chart 4
Changes in the yield premium realizable on home purchases through value appreciation, and in deposit yields



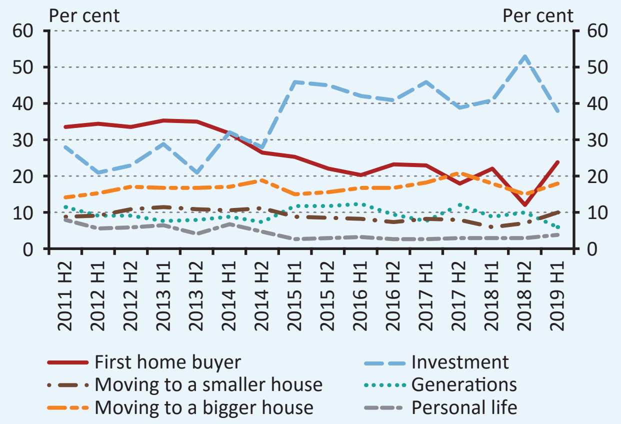
Note: The yield realizable on housing investments is calculated exclusively based on the growth rate of the MNB house price index.
Source: Government Debt Management Agency, MNB.

The favourable income and financial status of households boosts the housing market in the long term. Real household disposable income has grown dynamically in recent quarters, continuing into 2019 H1 at a rate of approximately 4.5 per cent (Chart 2). In the recent period, significant increases in the minimum wage and the guaranteed wage minimum have been accompanied by double-digit wage increases implemented by companies on a large scale, which have strongly contributed to the increase in housing market demand through household incomes. Over the last year and a half, households' net financial wealth has been historically high and has persistently exceeded 100 per cent of GDP, which is explained in part by the recent significant increase in savings. The increase in savings also supports pre-savings linked to households' building and home improvement plans. The continued growth of activity in lending for housing purposes and in consumer lending, also to finance a variety of housing purposes, is another major contribution to the expansion of the Hungarian housing market. Through lending to households, family protection measures aimed at home starters could expand households' investments further, which may contribute to sustained high housing market demand in the coming years.

In recent quarters, households have become slightly less motivated to purchase and upgrade homes. This year, the share of households seeking to purchase or improve a home within the next 12 months has fallen short of the outliers seen in the previous period, but remains at a high level. In addition, the number of permits issued for detached houses, the driver behind household demand, increased significantly in 2019 H1 compared to the previous year. The persistently high number of building permits issued may keep the willingness to invest strong in the coming quarters (Chart 3).

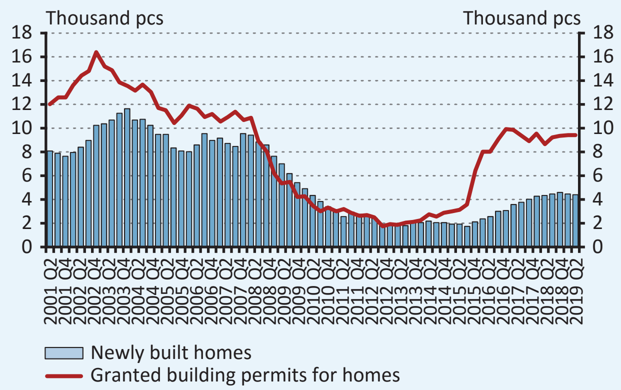
The low interest rate environment stimulates housing market demand on two channels. On the one hand, low lending rates create favourable conditions for households to borrow in order to finance their home purchases, whereby favourable credit conditions stimulate demand in the housing market. On the other hand, in a low yield environment, there is a substantial flow of savings to the property market, as the yields that can be realized on alternative financial instruments (such as term deposits) are significantly lower than those on the property market (Chart 4). House prices have grown at a steady annual rate of 15 per cent since 2015, accelerating to 17 per cent in 2019, but apart from value appreciation, attractive yields can also be achieved by letting. According to the experts of the Housing and Real Estate Market Advisory Board (LITT), the favourable conditions of the Hungarian Government Security Plus (MÁP+), launched in June 2019, have already

Chart 5
Distribution of home buyers in Budapest by purpose of home purchase



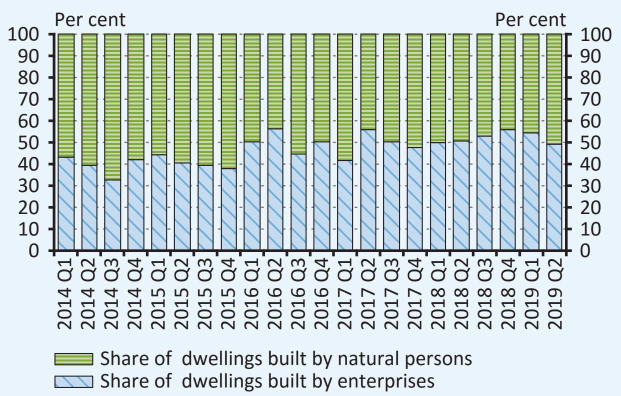
Source: Duna House.

Chart 6
Number of building permits issued and number of new completions



Note: Seasonally adjusted data.
Source: HCSO, MNB.

Chart 7
Distribution of new completions by developers



Source: HCSO.

had an impact on the property market. Budapest, where a higher proportion of homes are bought for investment purposes, saw a substantial decline in the demand for homes in June 2019.

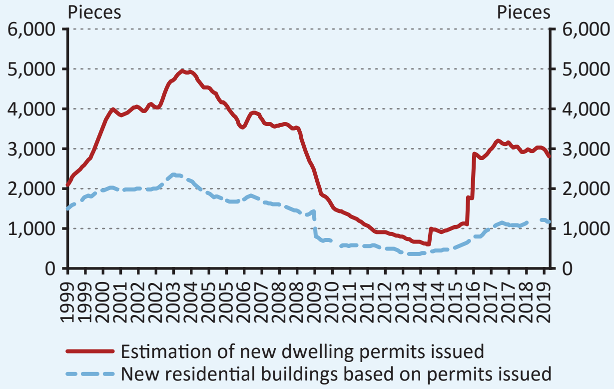
In the capital, investment continues to be one of the major motivations for home purchases. Due to the favourable financing environment and the high yield premium that can be achieved by purchasing homes, investment remains a major driver of home purchases. According to market surveys, 40 per cent of homebuyers reported transactions for investment purposes. In rural areas, the proportion of purchases for investment is lower, at around 25 per cent. Nevertheless, the proportion of home purchases by home starters remains significant, which indicates that although investment is an important motivation, home purchases made for a variety of housing purposes still play a prominent role in the market (Chart 5). Looking ahead, the strong interest in the MÁP+ may cool investor demand in the Budapest property market, as preliminary data seem to confirm.

2.2 HUNGARIAN HOUSING MARKET SUPPLY

In earlier years, supply in the housing market responded to growing demand by a substantial but still insufficient expansion, whereas in recent quarters the number of new completions has essentially remained unchanged nationwide. Already more modest compared to the previous period, trends in construction are also constrained by delays due to construction capacity shortages and the scarcity of skilled labour, and rising construction costs. Substantial growth in new completions may continue for the rest of the year. Looking ahead, although a favourable demand environment, rising house prices and home starter programmes continue to provide conditions that support property developers, VAT reset to its previous high rate, a strong cost pressure and capacity shortages prevent an adequate expansion of supply.

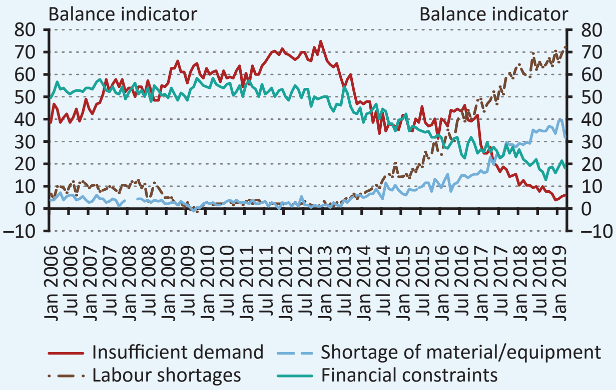
In recent quarters, supply in the housing market has stagnated compared to the same period of the previous year. While demand remains strong, supply in the property market tends to lag behind as a response. The upswing in demand on the housing market, with parallel increases in the price level and the yields achievable on property investments, triggered a gradual supply-side response, which, supported by the introduction of the preferential VAT rate for new homes, led to a rise in the volume of new builds from 2016. In 2018, a number of new property development projects were launched and the number of

Chart 8
Newly completed homes, residential buildings, and new building permits



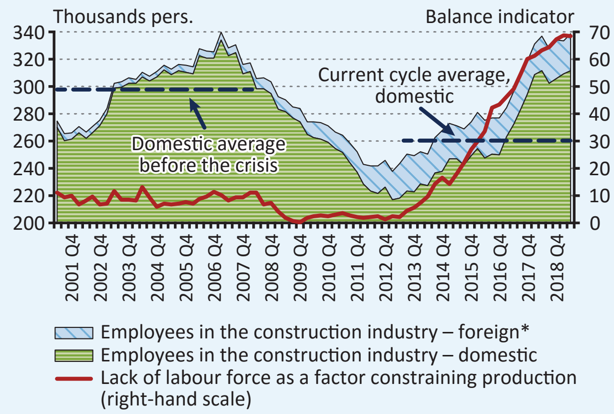
Source: MNB estimate based on HCSO data.

Chart 9
Constraints on construction output



Source: European Commission.

Chart 10
Number of employees in the construction industry



*Note: * Based on employees with a household in Hungary.*
Source: HCSO, MNB.

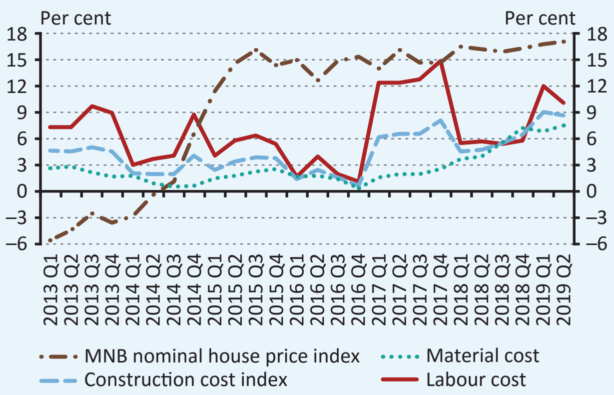
new completions continued to grow. In 2019 H1, a similar number of new completions were recorded, which indicates that supply remained subdued despite strong demand (Chart 6).

As a result of the greater intensity of property developer activity, which is one of the major drivers of supply in the housing market, the proportion of companies within new builds increased in previous years, followed by a slight decrease this year. While homes built by natural persons accounted for the bulk of the newly built stock at the beginning of the current housing market cycle, the supply-side response to favourable demand conditions spurred a sharp increase in the number of homes built by companies. While in 2014 over 60 per cent of home builders were natural persons, by 2018 more than one-half of new completions had been built by companies. So far in 2019, companies have seen their proportion drop slightly, but they still account for a large part of new builds at around 50 per cent (Chart 7). The number of residential buildings has grown substantially in recent years, accompanied by a steady increase in the number of new completions (Chart 8).

Looking ahead, the high level of building permits indicates a further increase in the number of new homes, but obstacles can be identified to the expansion of supply can be identified. In the responses of construction companies surveyed as part of a survey published regularly by the European Commission, the scarcity of labour remains the predominant factor, the inhibitory effect of which on production has increased significantly in recent years. This has been accompanied by a substantial moderation in the shortage of building materials, and in recent months the proportion of companies identifying that as an obstacle to production has been on the decrease (Chart 9). The main constraints are capacity shortages in the labour market, and rising costs in the case of building materials. Although a significant majority of construction companies continue to view demand conditions as favourable, the proportion of companies facing a fall in demand has slightly increased in recent months. Additionally, relatively few companies see financing as a problem.

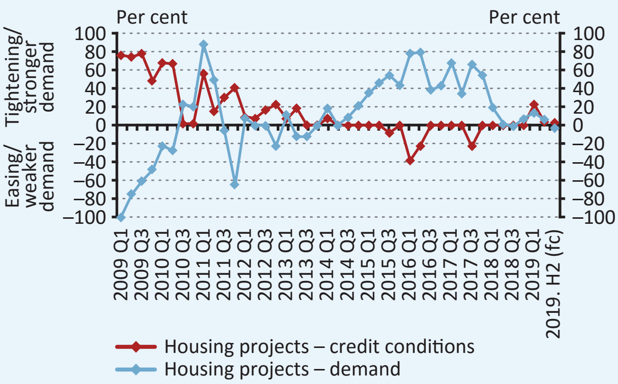
A significant number of workers in the construction industry are employed abroad, which contributes to the scarcity of labour market capacities in the industry (Chart 10). Before the crisis, the construction industry had over 30 thousand more domestic employees than in the current cycle. In 2019 H1, the number of domestic employees in the construction industry remained unchanged compared to

Chart 11
Annual increase in home construction costs and nominal house prices



Source: HCSO.

Chart 12
Lending conditions for housing projects and changes in demand



Note: Time series of lending conditions show the net ratio, i.e. the difference between banks tightening and easing, weighted by market share.

Source: MNB, based on banks' responses.

the previous year, while the number of employees working abroad increased slightly.

According to HCSO data, the costs of housing construction continued to rise in 2019. However, the annual growth rate of house prices still outstrips the increase recorded in construction costs, which may contribute to a supply-side response. In 2019 H1, the construction industry saw a double-digit increase in labour costs, while expenditures on building material costs increased at a historically high rate (Chart 11). Apart from rising construction costs, the growth rate of the house price index also remained strong this year and may provide additional incentives for housing developers. Looking ahead, however, developers' profitability is under pressure from strong wage dynamics, the difficulties in accessing and attracting skilled labour, and the persistently rapid rise in building material prices.

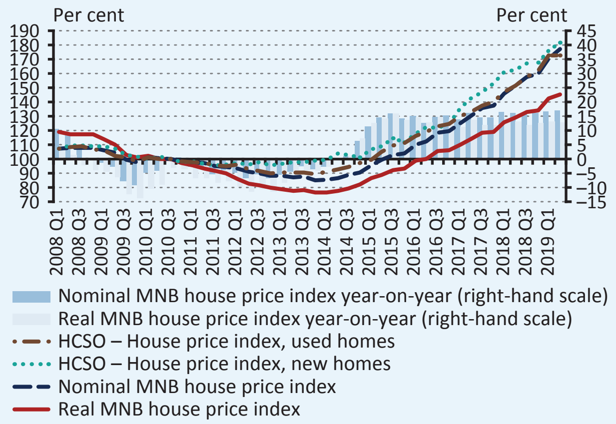
Credit conditions have tightened in the commercial property segment. In 2019 H1, banks tightened the terms of loans granted for the construction of commercial property. In Q1, the tightening affected all sub-segments, including housing projects (Chart 12), while in Q2 only shopping centres and office buildings. Further tightening is planned by banks across the credit segment in the second half of the year, but that will not affect housing projects either. As supply conditions tightened, the institutions surveyed experienced an increase in demand, primarily in the segments of logistics centres and office buildings, while housing projects are more likely to remain unchanged throughout the year.

3 Current housing market trends

In 2019 H1, Hungarian house prices continued to rise. In Q2, the annual nominal growth rate of house prices amounted to an average 17.1 per cent nationwide, exceeding the 16.3 per cent recorded at the end of 2018. In Budapest, however, price dynamics slightly moderated from 24.8 per cent at the end of 2018 to 22.5 per cent. Based on preliminary data, in 2019 Q3 annual house price dynamics may moderate not only in Budapest but also nationwide on average. In 2019 H1, the ratio of house prices to average earnings remained level nationwide, while in Budapest it deteriorated further from 10.7 years in 2018 to 12 years. In H1 the number of housing market transactions was 5.2 per cent lower than in the same period of the previous year, mainly due to the fact that in Budapest the number of transactions dropped by a significant 29.1 per cent year-on-year. The fall in the number of transactions in Budapest was the most spectacular Q2, and may have been influenced by the launch of the MÁP+ and its cooling effect on investor demand for housing. The high number of preliminary contracts made in recent years in the market for new homes will appear in transaction statistics only later, whereby the number of purchases in Budapest is temporarily reduced further. Although housing market demand remains elevated, the slight increase seen in Q3 in the typical time to sell and typical bargain may indicate falling demand for the capital.

In 2019 H1, the number of new building permits issued increased slightly year-on-year, accompanied by a slight decrease in the number of new completions. For a large number of new homes in development in the capital, completion is expected to be delayed from 2019 to 2020, somewhat smoothing out the peak in new completions anticipated for 2019. Overall, we expect new completions to peak at around 19.5 thousand homes in 2019, likely to be followed by some moderation from 2020/2021, which will put additional pressure on house prices despite continued strong demand. The renewal rate of the Hungarian housing stock is low by regional standards, with an even more striking shortfall for Budapest compared to capitals in the region. While the number of vacant new homes in the capital remained unchanged, the number of homes under development dropped in 2019 Q3. Expected sale times also increased against the backdrop of a constant rise in list prices. In Q3, the average square metre price was higher for homes that remained in the 5 per cent VAT bracket from 2020 onwards compared to homes in the 27 per cent VAT bracket. This may be explained by the fact that instalments of the purchase price of homes in the latter bracket will remain subject to the lower VAT rate up to the end of 2019, which is likely to spur a major price increase for these homes in early 2020.

Chart 13
House price developments



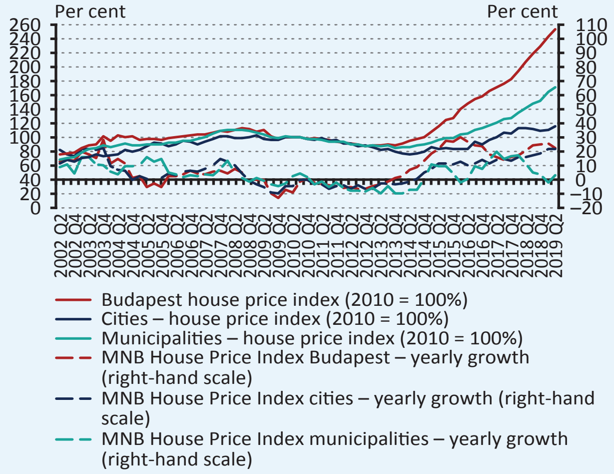
Note: For house price indices (left-hand scale) the average for 2010 = 100 per cent.

Source: HCSO, MNB.

3.1 TRENDS IN THE DOMESTIC HOUSING MARKET

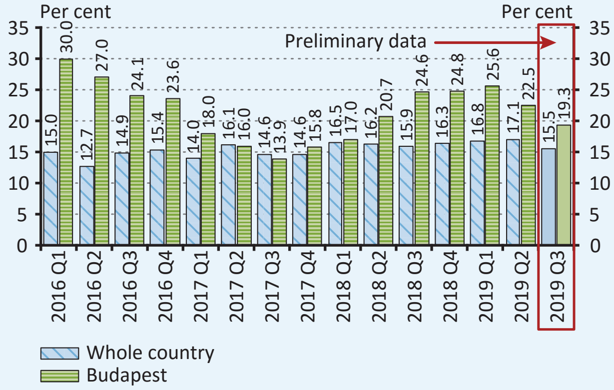
In 2019 H1, house prices continued to rise on average nationwide. In 2019 H1, Hungarian house prices continued to rise, with the aggregate nominal annual MNB house price index rising to 17.1 per cent by the end of the half-year from 16.3 per cent at the end of 2018. On average nationwide, house prices rose by 12.8 per cent in real terms year-on-year, showing almost exactly the same dynamics as at the end of 2018. The index used by the Hungarian Central Statistical Office (HCSO) to measure changes in the prices of new homes showed an annual nominal increase of 11.9 per cent in Q2, while the annual growth rate of the price index for used homes was 14.1 per cent in the same period (Chart 13).

Chart 14
The MNB's nominal house price index by type of settlement



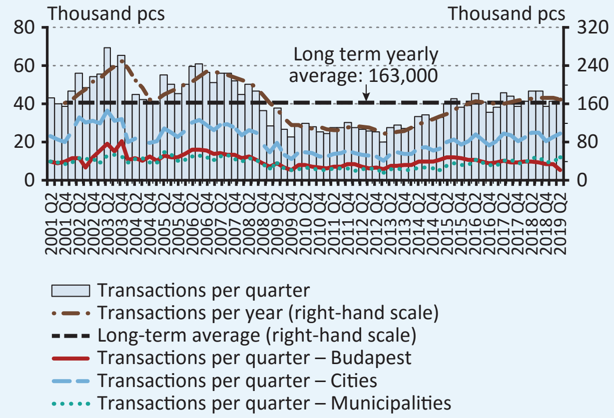
Source: MNB.

Chart 15
Annual growth rate of aggregate and Budapest house price indices of the MNB, with preliminary calculations



Note: The preliminary national index has been calculated on a sample covering 12 per cent of the market turnover, and the preliminary Budapest index on a sample covering 16,4 per cent of the turnover in the capital.
Source: Housing agent database, calculations of the MNB.

Chart 16
Quarterly and annual number of housing market transactions between individuals



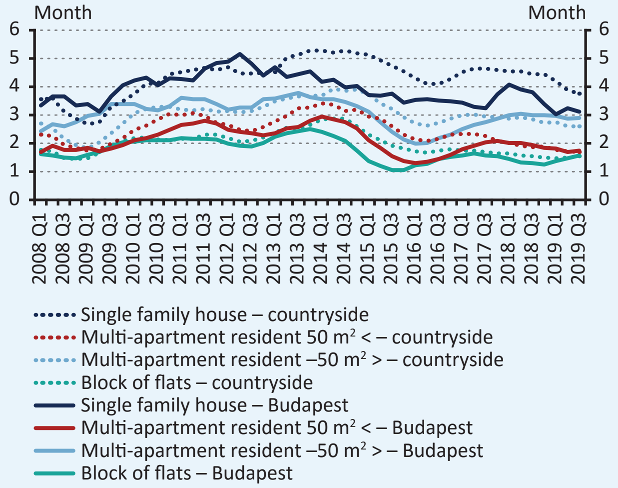
Note: Taking into account only the ownership acquisitions of 50 and 100 per cent. 2018 Q3–2019 Q2 based on estimation. Long-term average: 2001 Q1–2019 Q2.
Source: MNB.

In Budapest, the annual dynamics of house prices slowed down slightly, in contrast with the acceleration seen in rural towns. Considering the changes in domestic house prices by settlement type, significant differences emerged in the current housing market cycle. Compared to Budapest, in recent years house prices have increased at a significantly slower rate in rural towns, and the price increase has been even smaller in villages. In 2019 H1, the annual growth rate of house prices in Budapest moderated slightly from 24.8 per cent at the end of 2018 to 22.5 per cent by the end of 2019 H1. At the same time, the annual nominal price increase in the housing market in rural towns accelerated from 18.9 per cent to 21.6 per cent, achieving the highest house price dynamics in the current housing market cycle in rural towns. At the end of 2019 H1, house prices in villages were only 2.9 per cent higher than a year earlier, falling substantially short of the rates seen in larger settlements. Overall, the gap between house prices in smaller and larger settlements widened further in 2019 (Chart 14).

Based on preliminary data, annual house price dynamics may have moderated to some extent, while an annual appreciation of around 20 per cent may have persisted in Budapest. According to our preliminary house price indices based on data from housing agents, although house prices may have continued to rise in 2019 Q3 both on average nationwide and in the capital, appreciation may become somewhat slower. For 2019 Q3, preliminary data show a nominal house price increase of 2.6 per cent nationwide, and 3.2 per cent in Budapest. These figures are significantly lower than the quarterly growth rates seen a year ago (4 and 6 per cent, respectively), meaning that in Q3 the annual growth rate of house prices may slow to 15.5 per cent nationwide and 19.3 per cent in the capital (Chart 15). However, despite the slowdown, in Budapest the annual price increase of nearly 20 per cent can still be considered high.

In Q2, Budapest saw a major fall in the number of transactions. According to our preliminary estimates, individuals traded 83.3 thousand transactions in the Hungarian housing market in 2019 H1, down 5.2 per cent from 2018 H1. 169 thousand transactions had been traded in one year up to Q2, down 1.3 per cent from the previous year. However, changes in transaction numbers vary significantly by settlement type. In Budapest, in H1 the number of transactions was down 29.1 per cent year-on-year, mainly due to a sharp 46 per cent fall year-on-year in Q2. The number of transactions remained unchanged in rural towns and increased by 6 per cent in villages year-on-year. Even before 2019 Q2, the number of transactions in Budapest had shown a downward trend from 2016 (Chart 16). Apart from the gradual demand-reducing effect of significantly elevated price levels, this is partly due to

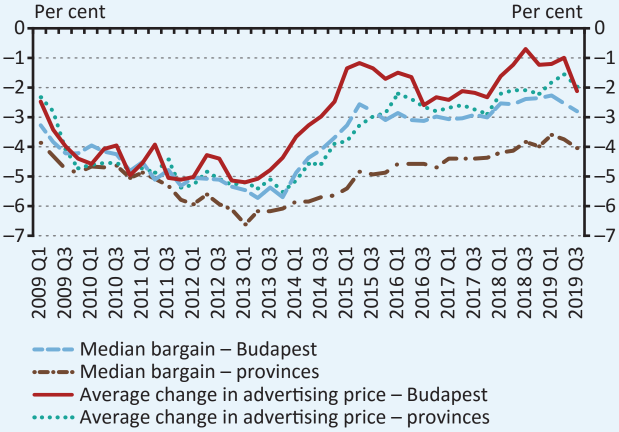
Chart 17
Median time to sell residential property, broken down between Budapest and the provinces, and by type of property



Note: Time from listing to sale. Annual rolling averages.

Source: Housing agent database, MNB calculations.

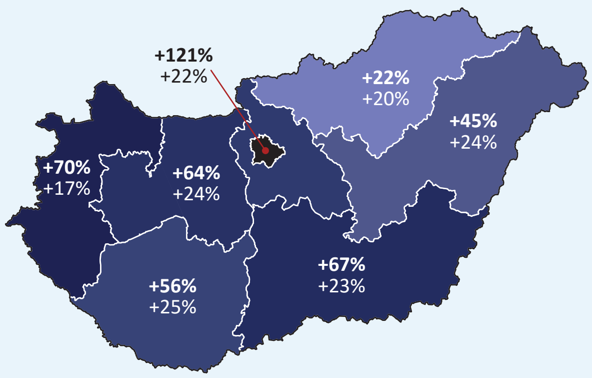
Chart 18
Median bargain in the Budapest and rural housing markets, with the average change to the list price



Note: Bargain: percentage shortfall of the transaction price compared to the last listed price. Change to list price: percentage change applied to the list price during the listing period.

Source: Housing agent database, MNB calculations.

Chart 19
Development of urban house prices between 2008 Q4 and 2019 Q2 (between 2018 Q2 and 2019 Q2)



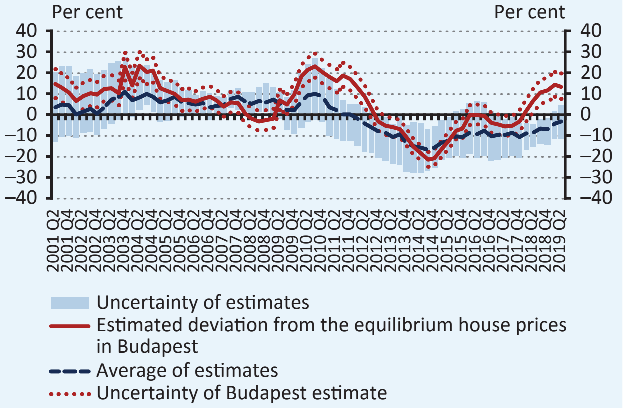
Source: MNB.

the fact that many buyers had made purchases during the post-2016 boom in the market for new homes and in most cases under pre-contracts, which only appear in stamp duty based transaction statistics with a significant delay, often of several years. In large part, the significant drop in Budapest transactions in 2019 Q2 may have been attributable to the launch of the MÁP+, whereby some of the buyers seeking investments may have been discouraged from buying property. By 30 September 2019, HUF 2,124 billion worth of MÁP+ securities had been subscribed, representing a significant amount not only compared to the Budapest volume (some HUF 1,100 billion), but also to the total volume of housing market turnover in 2018 (some HUF 2,700 billion).

In Budapest, the time to sell residential property consisting of multiple units increased slightly in Q3. In 2019 Q3, the median time to sell residential property in Budapest was 2.2 months, essentially unchanged from the end of 2018, while in the provinces the median time to sell decreased from 3.1 to 2.8 months over the same period. However, the trends at work vary by type of property. In the capital, the median time to sell of units in panel type buildings has increased substantially from 1.3 months to 1.6 months since the end of 2018, but remains the lowest compared to other types of property. For homes other than panel type flats, times to sell were somewhat shorter than at the end of 2018, followed by a slight increase in Q3. In the case of rural properties, in 2019 Q1–Q3 the greatest decrease was recorded in the time to sell detached houses, down from 4.4 to 3.8 months (Chart 17).

A higher bargain rate in the housing market was accompanied by advertisers cutting list prices to a greater extent. Apart from times to sell, the typical bargain rate and the change to the advertised list price may also be indicative of the conditions prevailing in the housing market. From 2014, the typical bargain decreased significantly both in Budapest and in the provinces. The median bargain fell to its lowest level in 2019 Q1, to 2.2 per cent in Budapest and 3.6 per cent in the provinces, rising to 2.8 and 4 per cent, respectively, in 2019 Q3. The increase in the median bargain indicates a deterioration in seller positions, and may point to a slight decline in demand at this time. Apart from a higher bargain rate, a fall in demand may also be signalled by the fact that sellers on average lowered their list prices to a greater extent during the listing period. The average change to the list price was –1 per cent in 2019 Q2, decreasing to –2.1 per cent in Q3 (Chart 18). It is worth pointing out that despite a higher bargain rate and greater list price reductions, the housing market remains considerably more vibrant and more liquid compared to the years before 2014.

Chart 20
Deviation of house prices from the estimated level justified by the fundamentals, nationwide and in Budapest[3]



Source: MNB.

Over the long term, changes in urban house prices vary significantly across the regions of Hungary. In 2019 Q2 house prices in Budapest already exceeded the nominal house price levels seen in 2008 by 126 per cent. Apart from the capital, over the past ten years the increase in house prices has been the greatest in Western Transdanubia, where house prices are now 70 per cent higher in nominal terms than in 2008. This is followed by the Southern Great Plain with 67 per cent and Central Transdanubia with 64 per cent. Housing market appreciation between 2008 and 2019 Q2 was the lowest in Northern Hungary, where house prices increased by a mere 22 per cent over the period (Chart 19). In 2019 Q2, house prices increased at rates exceeding an annual 20 per cent across rural towns, except in Central Hungary and Western Transdanubia.

In Budapest, residential property continues to carry a high risk of overvaluation. In 2019 H1, despite the continued rise in house prices, on average nationwide, house prices remained below the levels justified by the fundamentals, although the gap has narrowed. This means that although several macroeconomic drivers of the housing market have improved (household disposable income has increased, and the unemployment rate has dropped slightly further), those improvements have not been sufficient to offset housing market appreciation. Overall, house prices in Budapest have already exceeded the level justified by macroeconomic fundamentals, which has significantly increased the risk of overvaluation of residential property in the capital (Chart 20).

Box 1
Impact of large-scale rural automotive investments on local housing markets

The Hungarian automotive industry, including its supplier network, has a significant impact on the country's economy: in 2017, the sector accounted for about 10 per cent of Hungarian GDP. The investments by Opel in Szentgotthárd, Suzuki in Esztergom, Audi in Győr, and Mercedes in Kecskemét are crucially important not only at the local level, but also for the national economy at large. The volume of large-scale automotive investments and their capacity to add value have a substantial impact on economic processes even in themselves, but they also indirectly support the performance of the national economy through the establishment of local businesses and supplier incentives. Apart from economic relevance, investments of this scale also have a substantial impact on social and labour market trends, and as such are also felt in housing market conditions. This box addresses the impact of investments by

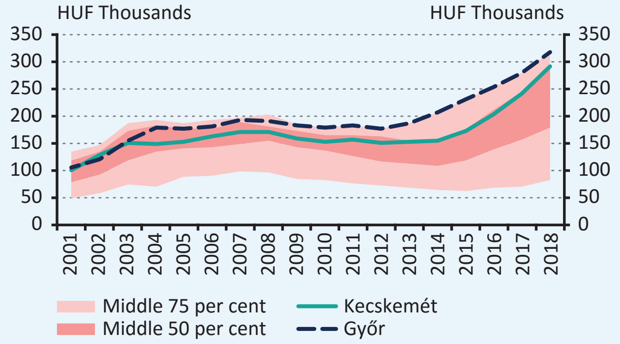
[3] The deviation of house prices from the level justified by the fundamentals is quantified based on four methodologies. In the report, we publish the minimum, maximum and average values of the results delivered by the individual methodologies. The four calculation methods are as follows: 1. Percentage deviation of the ratio of real house prices to disposable real income from the average of the indicator calculated between 2001 and 2016 2. Estimate of the long-term equilibrium of Hungarian house prices driven by macroeconomic fundamentals by means of a vector error correction model frame (VECM). For a detailed methodology, see: Tamás Berki – Tibor Szendrei (2017): *The cyclical position of housing prices – a VECM approach for Hungary*, Magyar Nemzeti Bank, OP 126. 3. Estimate of the level of Hungarian house prices driven by macroeconomic fundamentals by means of a dynamic OLS model frame. 4. Deviation of Hungarian house prices from the equilibrium by means of a structural model frame used for forecasting house prices. For more details, see: Magyar Nemzeti Bank: Housing Market Report, October 2016, Box 1. Deviation of house prices in Budapest from the level justified by fundamentals is quantified by the dynamic OLS model framework; for more details on the methodology, see: Magyar Nemzeti Bank: Financial Stability Report, May 2017, Box 2.

Audi and Mercedes on the local housing markets in Győr and Kecskemét, and the way housing market conditions in these two county seats are different compared to other county seats in the provinces.

Price evolution

In terms of average square metre prices in the county seats across Hungary, **in the early 2000s both Kecskemét - today accommodating the Mercedes plant - and Győr, accommodating the Audi plant, were towns characterized by price levels approximating the median.** The Audi plant in Győr started engine production in 1994, followed by the production of specific models from 1998 onwards. Subsequently the Audi plant was expanded in several stages, as a result of which Audi employees accounted for 12.3 per cent of all employees in Győr according to census data of 2011. The continuous development of the plant also had a noticeable effect on local property prices: among county seats, **average square metre prices have been the highest in Győr since 2008**. The investment by Mercedes in Kecskemét was announced in 2008, with production starting in 2012. In 2016, further developments were first announced along with the expansion of production capacity, followed by the announcement of the construction of a second plant.

Development of average yearly square metre prices in county seats



Source: NTCA, MNB.

According to census data of 2001 and 2011, in Kecskemét the number of employees increased from about 44 thousand to nearly 48 thousand over ten years, in which the launch of the Mercedes plant played a significant role. **Property prices in Kecskemét began to approximate those in towns with higher price levels, such as Győr and Szombathely, after the crisis of 2008, in the period following the announcement of the construction of the Mercedes plant.** It is also important to point out that **after 2011, in Kecskemét the decline in square metre prices effectively stopped**, as opposed to the case in the majority of county seats, where the negative price dynamics starting in the wake of the crisis continued up to the end of the cycle, until 2014. Another noteworthy fact is that **since 2013 the average square metre price in Kecskemét has increased by 90 per cent**, in contrast with the average price increase of 68 per cent among county seats.

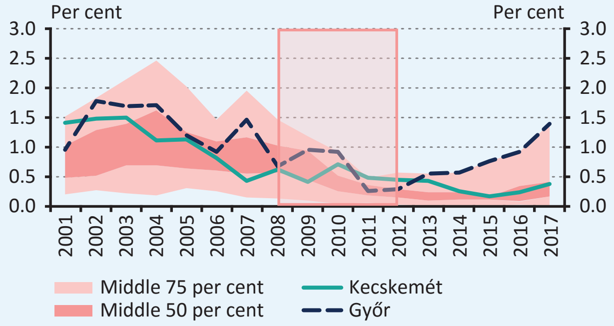
Turnover rate

One of the key factors of the property market is the percentage of the housing stock on the given market that is traded over a specific period, referred to as the turnover rate of the housing stock. Namely, when the turnover rate of the housing stock appears to be accelerating, this implies buoyant demand, which is accompanied by rising house prices in most cases. **In the period immediately following the onset of the crisis of 2008, most county seats experienced downturns of more than 30 per cent in the volume of property transactions, with the turnover rate of their housing stock also decelerating significantly** during the period. This is illustrated by the fact that on average an annual 5.3 per cent of the housing stock had been traded before the crisis, down to a mere 3.2 per cent during the crisis. Although the current housing market cycle starting in 2014 has seen a steady acceleration in turnover, the 4 per cent average continues to fall short of pre-2008 levels. After 2008, **in both Kecskemét and Győr**, where employees of the car manufacturers entered the property market in large numbers, **the frequency of property sales stabilized within a short time and subsequently accelerated**, providing meaningful support for the faster-than-average increase in square metre prices. The ability of the car manufacturers to attract labour is confirmed by the migration trends observed in Hungary, and is well illustrated by the fact that **in terms of domestic migration Kecskemét stood out among the other county seats in the period surrounding the launch of the Mercedes plant (2011–2012)**.

Renewal rate of housing stock

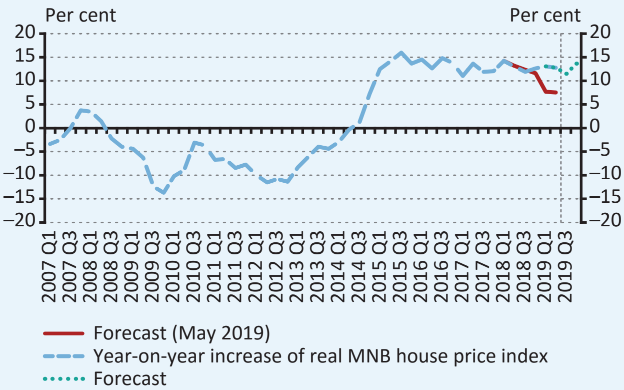
The conditions prevailing in the housing market raise the question of how the supply side responded to the demand created by large-scale investments. After 2009 the supply of new homes fell substantially nationwide. The Hungarian housing market continued to contract until 2014, with just over 7 thousand new completions a year at its lowest. However, there were significant differences in the renewal of housing stock in individual county seats and their agglomerations. In Kecskemét and its agglomeration, for example, **in the two years following the announcement of the Mercedes plant, the renewal of housing stock increased** in tandem with the downward trend of the property market, along with which every other county seat was facing a decline in new builds. **Right until the launch of the plant, Kecskemét had one of the highest renewal rates** among county seats, which suggests that investors were responding to the increased housing needs generated by the construction of the plant employing thousands of new workers. **The annual renewal rate of housing stock in Győr and its agglomeration had consistently been high** relative to other county seats **from the early 2000s, and since 2013 Győr has recorded the highest rate of new builds.** The renewal rate in Győr reached 1.4 per cent by 2017, in which, apart from the continued expansion of the Audi plant, a substantial part is likely to have been played by the positive net domestic migration flows in the region.

Renewal rate of housing stock in county seats



Source: HCSO.

Chart 21
Forecast of the MNB's aggregated real house price index (annual change)



Source: MNB.

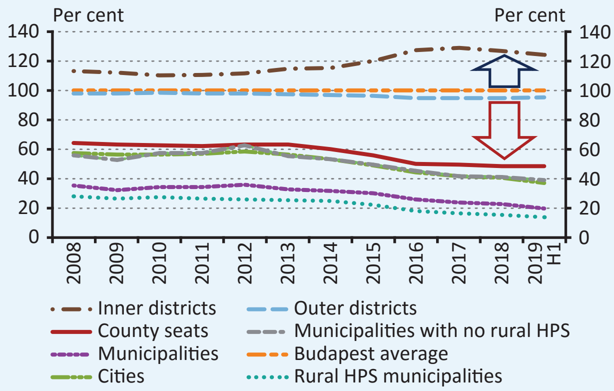
The double-digit rise in real house prices may continue in 2019. This year, the macroeconomic fundamentals driving the housing market have followed a favourable course, contributing to rising house prices. We expect that the growth in households' real incomes and the fall in the long-term unemployment rate, which shapes income expectations for a longer horizon, will continue this year, although at a slower rate compared to previous years. Strong demand in the housing market has been supported by a persistently favourable financing environment and by the family protection measures introduced as of July 2019 to help home starters. Household credit demand is set to remain buoyant, contributing to the continued rise in housing demand and house prices. In 2019 H1, house prices increased at a rate exceeding our expectations, nevertheless in the short term slower supply-side response could be observed. In 2019 Q2, real house prices were up by an average of 12.8 per cent; expected to be followed by an increase of 11.6 per cent in Q3 and 13.7 per cent by the end of the year, in line with the macroeconomic path projected in the September Inflation Report (Chart 21). According to our forecasts, real house price dynamics may gradually moderate to a single-digit level in the years ahead, in line with demand becoming increasingly subdued in the wake of decelerating income growth.

Chart 22
Median house prices and square metre prices by type of settlement

		2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
Median apartment price (HUF million)	Budapest	22.7	24.3	25.0	26.5	27.8	28.0
	Cities	11.8	12.3	13.0	13.3	14.0	14.0
	Municipalities	5.6	5.5	6.1	6.2	7.0	5.0
	Total	**14.9**	**15.0**	**16.0**	**16.8**	**17.4**	**15.5**
Median square metre price (HUF thousand)	Budapest	450.0	479.6	514.7	540.0	569.2	609.8
	Cities	205.7	212.5	227.8	232.1	246.0	246.2
	Municipalities	75.0	76.4	80.0	81.6	87.4	68.2
	Total	**265.4**	**270.8**	**284.1**	**296.6**	**303.6**	**277.8**

Note: Data for 2018 Q3–2019 Q2 are preliminary.
Source: MNB.

Chart 23
Average square metre price by type of settlement (average of Budapest = 100 per cent)



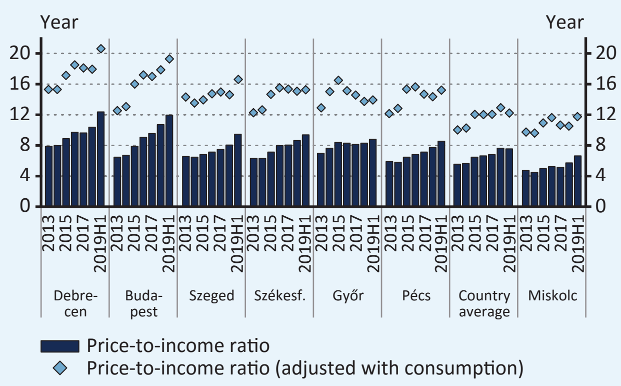
Source: National Tax and Customs Administration, MNB.

Among transactions, the median house price and median square metre price declined nationwide in 2019. By type of settlement, in 2019 Q1 the rise in the median house price came to a halt in towns and villages, while in Budapest the median square metre price increased slightly further in Q2. In terms of median square metre prices, in 2019 Q2 Budapest and the towns continued to show an upward trend, contrasted with a sharp fall in villages. In respect to the total volume of transactions, the decrease in median square metre prices and median prices is explained both by a higher proportion of the transactions completed in villages and by a higher proportion of lower quality, more poorly located properties within all transactions (Chart 22).

In 2019 H1 the price gap continued to widen between the capital and the rest of the country, while small settlements covered by the rural HPS programme show a substantial shortfall compared to other areas in the country. In 2019 H1, the gap between Budapest and rural settlements, particularly the smaller ones, widened further in terms of house prices. In that period, the average square metre prices observed in county seats did not fall compared to prices in Budapest, and amounted to 49 per cent of the capital's average as in 2018. As a percentage of the levels seen in the capital, prices moderated from 57 per cent in 2013 to 37 per cent in rural towns, and from 33 per cent to 20 per cent in villages. The greatest differences can be observed in small settlements that have populations below 5 thousand and are covered by the rural HPS programme. In the settlements eligible for the programme, the average square metre price in 2019 H1 was a mere 14 per cent of the Budapest average, down by more than 10 percentage points compared to the end of 2013 (Chart 23).

Apart from Budapest, housing affordability has also deteriorated significantly in several major provincial towns. In Hungary, the ratio of house prices to average net incomes is the highest in Debrecen and Budapest, where

Chart 24
Price-to-income ratios 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 and average annual net income of the households. Average incomes are county level data, and per capita consumption is regional level data. In the case of values adjusted for consumption, 2018 and 2019 H1 data are based on per capita consumption in 2017.

Source: HCSO, MNB.

buying a 75 square metre home in the median price bracket requires approximately 12 years of local average income. Among regional centres in the country, housing affordability is the highest in Miskolc, where less than 7 years of average income, below the national level will buy a 75 square metre home in the median price bracket. In recent years, the increase in the value of the indicator has been the greatest in Budapest, where in 2019 H1 an additional 5 years of average income was required to buy a typical home compared to 2013 (Chart 24). When average net incomes are adjusted for annual per capita consumption, the value of the indicator almost doubles for all cities.

Box 2
Deteriorating housing affordability in Budapest, and its impact on competitiveness

Relative to nationwide trends, the affordability of homes in Budapest has dropped significantly. As a result of strong demand and a slow response from the scarce housing supply, since 2014 home prices have risen significantly in nominal terms, by 108 per cent nationwide and by 184 per cent in Budapest. The rate of increase in housing prices significantly exceeded the growth of household income, leading to a substantial deterioration of housing affordability in Hungary, particularly in Budapest.

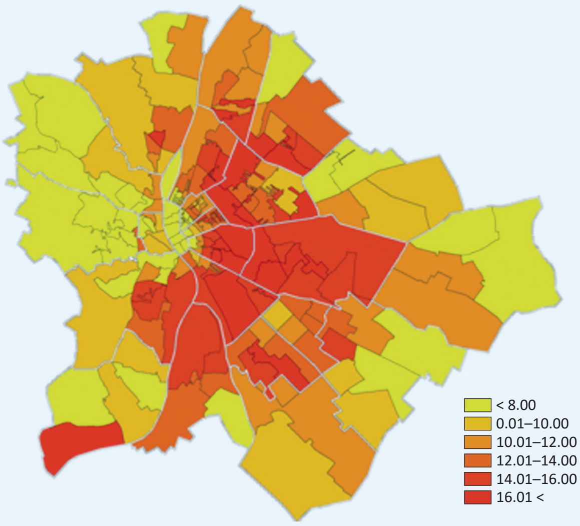
Price-to-income ratio in Budapest and on the countryside, as well as in case of average and young home buyers

	Home buyer	Median monthly net income (2019, HUF thousand)	Floor space of apartment intended to be purchased (m^2)	Median square metre price (2019, HUF thousand)	Price of apartment (HUF million)	How many years of annual income does a median apartment cost? (price-to-income ratio)
Whole population	Earning average income - countryside	206	75	226	17.0	6.9
	Earning average income - Budapest inner districts	302	75	631	47.3	13.0
	Earning average income - Budapest outer districts	302	75	456	34.2	9.4
Young people	**First home buyer living on the countryside (between 20-30 years of age)**	**159**	**60**	**226**	**13.6**	**7.1**
	First home buyer living in Budapest inner districts (between 20-30 years of age)	**204**	**60**	**631**	**37.8**	**15.4**
	First home buyer living in Budapest outer districts (between 20-30 years of age)	**204**	**60**	**456**	**27.3**	**11.2**

Source: MNB.

However, deteriorating housing affordability not only reflects regional differences: young people, who mostly enter the housing market as first home buyers, are at a relative disadvantage. According to our calculations, in Budapest a first home buyer aged 20 to 30 will need 15.4 years worth of total net pay to buy a home with a floor area of 60 square metre in the median price bracket in the inner districts of the capital, and 11.2 years for a home of the same size in the outer districts. On average nationwide, buying a larger home of 75 square metre requires 13 years worth of national average pay in the inner districts, and 9.4 years in the outer districts, which means that lower pay puts young people at a disadvantage when it comes to purchasing a home.

Proportion of people under 30 within transactions made in 2018 in Budapest, by postal code (per cent)



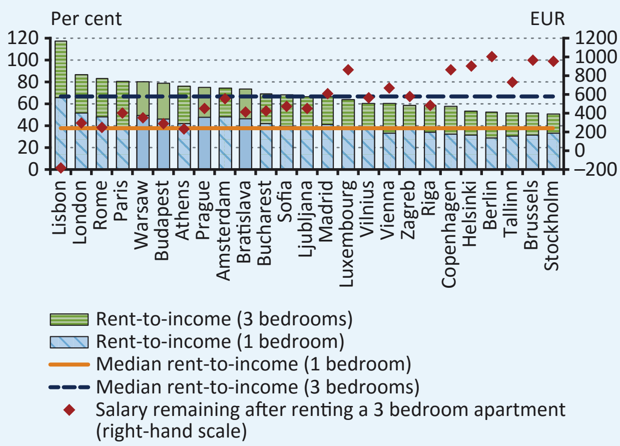
Source: MNB.

This is particularly important because although a purchase in the city centre is less affordable for young people, the housing transactions of the last year show that, except for the innermost District V, the proportion of purchases by people under 30 is higher in the inner districts of Budapest, which is likely to be motivated by lower commuting times, i.e. more favourable locations.

The problem of housing affordability is aggravated by the absence of a developed rental housing market in Hungary, with 86 per cent of households living in property of their own. In the rental housing market, lessors are individuals, offering short-term contracts in most cases. As a percentage of net income, rents in Budapest are currently the sixth highest among European capitals. In Budapest, the rent for a typical 3-bedroom home is 78.7 per cent of typical income. The ratio is slightly higher at 80 per cent in Warsaw, but lower in Prague and Bratislava at 74.9 and 73.4 per cent, respectively. However, in terms of the amount of disposable income a household will have after paying a typical rent for a three-bedroom home out of typical earnings, Budapest has the third lowest value among European capitals after Athens and Rome, while disposable income at purchasing power parity is the closest to that in London. At purchasing power parity, in Budapest and London a disposable income of EUR 290 and EUR 299, respectively, remains after paying rent for a typical 3-bedroom home, with Berlin (EUR 1,009) and Brussels (EUR 960) on the other extreme.

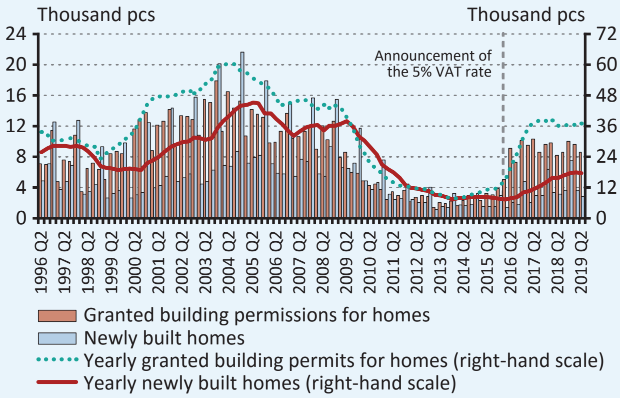
On balance, the rise in housing prices and the resulting deterioration in the affordability of home purchase and rentals are raising concerns that go beyond the social factors and increasingly relate to Hungary's competitiveness in the long term. On the one hand, rising prices in the capital are driving buyers for housing purposes to outer, relatively cheap districts or the agglomeration, where populations may grow excessively large in terms of available infrastructure. On the other hand, the high level of rents in Budapest, and the resulting deterioration in the affordability of housing, may also encourage young people to move abroad. As a result of higher prices, households are either forced to spend beyond their means on housing or will be unable to afford property of the right quality or at the right location, which may increase commuting times for those moving to the outer districts, potentially accompanied by postponed parenthood.

Rent-to-income ratio in European capitals



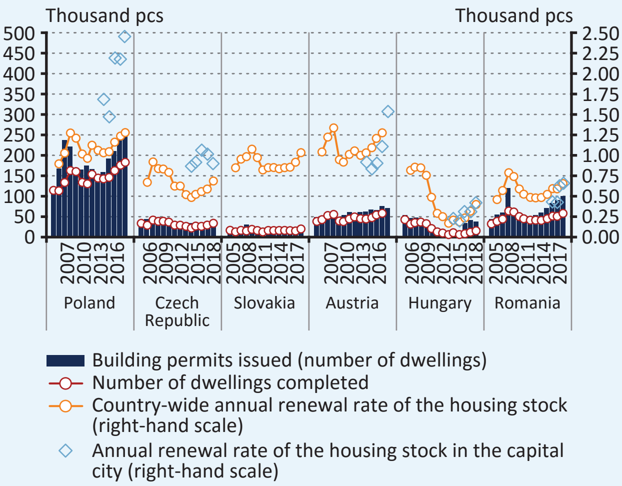
Source: Eurostat, numbeo.com.

Chart 25
Number of building permits issued and number of new completions



Source: HCSO.

Chart 26
Building permits issued, new completions, and housing stock annual renewal rates in countries across the region



Note: The data related to the residential building permits show the aggregate number of homes indicated in the building permits. We have no data available on the number of new completions in 2018 for Austria. For several countries, the annual renewal rate is calculated on the basis of estimates on existing housing stock.

Source: ECB, national statistical offices, MNB.

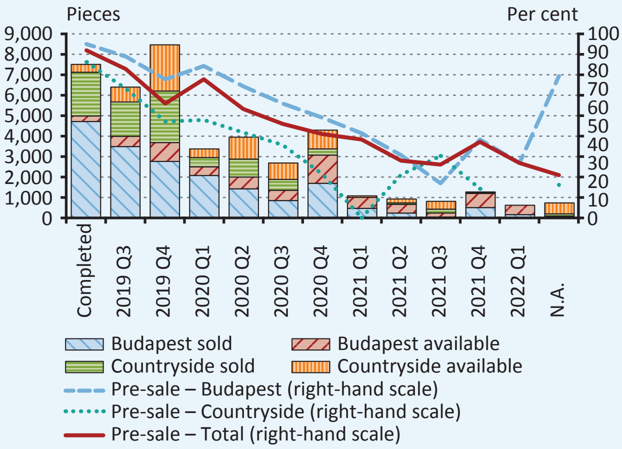
3.2 SUPPLY OF NEW HOMES

Fewer than one-half of the homes in building permits issued over the last two years have actually been completed. In 2019 H1, 18.2 thousand building permits were issued in Hungary, up by a slight increase of 0.9 per cent year-on-year (Chart 25). By type of settlement, the number of permits issued in the first half of the year stagnated in the capital, decreased by 3.2 per cent in county seats and by 5.7 per cent in other cities, and increased by 20.4 per cent in municipalities. Over the last year, the annual number of building permits issued has fallen from 38–38.5 thousand in 2017 to 36–37 thousand. In H1, there were some 6.5 thousand new completions, down by a slight 0.7 per cent year-on-year. Over the last year and a half, the number of new completions was the lowest in 2019 Q2 at 2.8 thousand. In respect to the completion rate of the building permits issued, in the one-year period ending June 2019, fewer than one-half (46 to 47 per cent) of the homes in the permits issued in the preceding 1.5 to 2 years were completed.

The renewal rate of the Hungarian housing stock is low by regional standards, with an even more significant shortfall for Budapest compared to capitals in the region. In Hungary, the number of new homes built in 2018 was equivalent to 0.4 per cent of the housing stock existing at the end of 2017 (Chart 26). By regional standards, this is a low ratio, being fewer than two-thirds of that in Romania and the Czech Republic, about 40 per cent of that in Slovakia, and one-third of that in Poland and Austria. An assessment of Budapest in terms of its position among capitals in the region shows an even greater shortfall. Against the 0.42 per cent renewal rate of the housing stock in Budapest in 2018, the indicator stands at 0.66 per cent in Bucharest, 0.9 per cent in Prague, 1.54 per cent in Vienna and 2.46 per cent in Warsaw. The 2018 figures for Warsaw and Vienna are outstanding but the averages of the preceding years are also high, showing average renewal rates of around 1.9 and 1 per cent, respectively. Among the capitals under review, housing stock is renewed at rates corresponding to the nationwide levels in Budapest and Bucharest, whereas in Prague and Warsaw, and also in Vienna in 2018, the ratio of new completions to the total housing stock was substantially higher than the nationwide figure.

Compared to the volume expected for 2019, developers are currently planning to complete one-third fewer new homes in 2020. In 2019 H1, 6.5 thousand homes were built nationwide, and an assessment of construction in progress suggests that housing developers are planning to complete another 14.9 thousand multi-apartment units in H2 (Chart

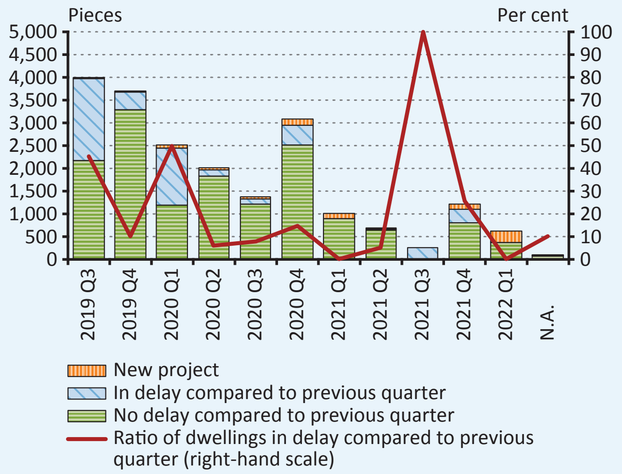
Chart 27
Breakdown of new homes planned and under construction in Budapest and the countryside at the end of 2019 Q3 by quarter of planned completion



Note: Based on new housing projects for more than 4 homes in Budapest, and more than 10 homes in the provinces.

Source: ELTINGA – Housing Report.

Chart 28
Breakdown of new homes planned and under construction in Budapest at the end of 2019 Q3 by quarter of planned completion



Note: Based on projects for more than 4 new homes in Budapest.

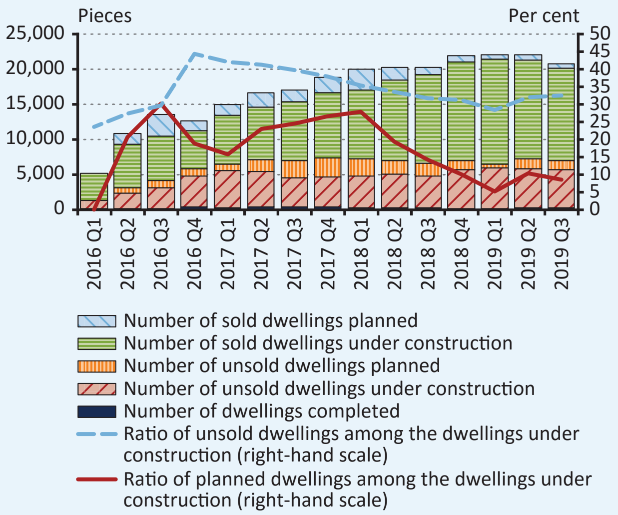
Source: ELTINGA – Housing Report.

27). Disregarding new completions in projects for 10 homes or fewer in H2, that is equivalent to investor plans for 21.3 thousand new multi-apartment units to be completed in 2019 overall. In contrast, based on the figures for new projects, developers are planning to complete a total of 14.3 thousand new homes in 2020, i.e. one-third fewer compared to plans for 2019. In terms of the availability of new homes to be completed according to the plans, 82 per cent of the expected volume in Budapest, along with 58 per cent outside the capital, has already been sold. Of the new completions expected for 2020, the volume that has already been sold amounts to two-thirds in Budapest and 41 per cent in the countryside.

In the capital, the expected completion of a large number of new homes in development has been delayed from 2019 to 2020. According to data for 2019 Q3, in Budapest housing developers are planning to complete 9 thousand new homes for the whole of 2019, of which about 1.5 thousand were already completed in H1. In recent quarters, the number of new completions expected for this year has been decreasing steadily, down from the 14.5 thousand reported for 2019 Q1 by 38 per cent in Q3. At the same time, there has been an increase in the number of new completions planned by developers for 2020, up from 5.9 thousand to 9 thousand (+51.7 per cent) already in Q1. In the capital, 55 per cent of new homes in development, about 11.3 thousand units, have been delayed to their original schedules. Overall, while in earlier quarters planned new completions peaked in 2019, a smoother schedule emerged by Q3, which appears more realistic (Chart 28).

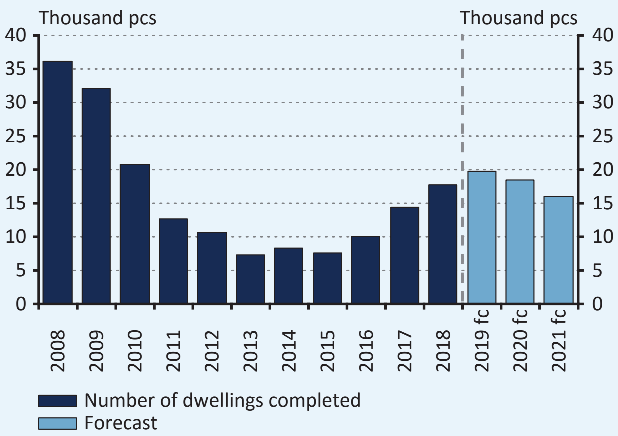
The number of homes in development decreased in 2019 Q3 with unchanged level of supply. The number of homes in development (either planned or under construction) in Budapest dropped to 20.5 thousand in 2019 Q3 from 21.9 thousand in the previous quarter, a decrease of 6.3 per cent quarter-on-quarter, but still 2.4 above the figure for 2018 Q3 year-on-year (Chart 29). For the first time in years, development activity slowed in Budapest. Among developments, the proportion of homes in planning that have not yet reached the construction stage has been decreasing steadily since early 2018, and stood at 8.7 per cent in 2019 Q3. In terms of the vacancy rate, 32.6 per cent of homes in development were still available in Q3, in line with the levels seen over the last year. The approximately 7 thousand vacant homes in Budapest indicate a constant level of supply. In 2019 Q3, 770 new apartment constructions were announced, a record low in the current housing market cycle. Since the reduced VAT rate of 5 per cent applicable to sales of new homes became effective in early 2016, developers have announced over 3 thousand new homes on a quarterly average.

Chart 29
Number and ratio of vacant new homes under development in Budapest



Note: Based on projects for more than 4 new homes in Budapest.
Source: ELTINGA – Housing Report.

Chart 30
Number of new completions nationwide, with forecast

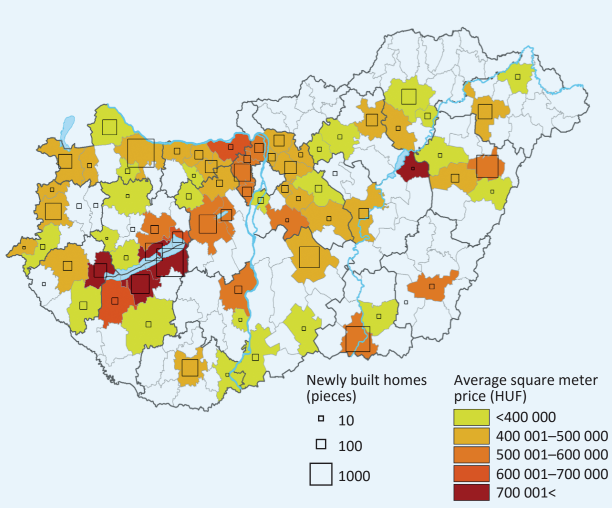


Source: HCSO, MNB.

Nationwide, we expect the cycle of new housing construction to peak in 2019, in line with the basic trends in household incomes and the growth dynamics of households' investments. This year, apart from the high number of projects in development, the dynamic growth in new completions has also been supported by strong trends in lending, along with family protection measures aimed at home starters. Taking into account delays to projects in development, after 17.7 thousand new completions in 2018, 19.8 thousand new completions appear viable in 2019. Subsequently, new completions are likely to slow, influenced by a number of factors including VAT reset to its previous high rate, and the energy requirements set to be tightened as of 2021. A major downturn is expected primarily in the number of homes built by companies, possibly accompanied by a greater proportion of detached houses in the household segment, partly due to an increasing uptake of family protection measures. Based on the high number of permits observed in recent quarters and the high number of residential projects under construction, overall, we anticipate 18.5 thousand new completions in 2020 and 16 thousand in 2021 (Chart 30).

New housing developments are being concentrated in parts of the country where economic prospects and conditions for tourism are more favourable. In Hungary, new housing projects tend to be implemented in large numbers in Budapest, in the central and northern parts of Transdanubia, and in the northern part of the Danube–Tisza Interfluve. Outside the capital, there are a total of approximately 16.7 thousand new homes in projects that are either for sale, in the planning stage, under construction, or completed. Of that stock, 14.5 per cent is located in Győr-Moson-Sopron, 14.3 per cent in Somogy, and 12.3 per cent in Pest County (Chart 31). The lowest number of new homes under development are located in Békés (61 pieces), Tolna (124 pieces) and Jász-Nagykun-Szolnok (250 pieces) counties. 25 per cent of all new homes in the countryside are located in areas around Lake Balaton, 12 per cent in the agglomeration of Budapest, and another 52 per cent in county seats and towns of county rank. Overall, 88 per cent of all new homes outside the capital are built in areas with more favourable macroeconomic fundamentals, and are linked to the Balaton region, county seats, or Budapest. Owing primarily to developments being near Lake Balaton, homes built in Veszprém and Somogy counties have significantly higher list prices compared to other counties, with average square metre prices of HUF 870 thousand and 771 thousand, respectively. In Győr-Moson-Sopron, Pest and Csongrád counties, where the majority of new homes are located in the countryside, the average price per square metre is HUF 436, 519 and 532 thousand, respectively. Compared to the prices of new homes outside the capital,

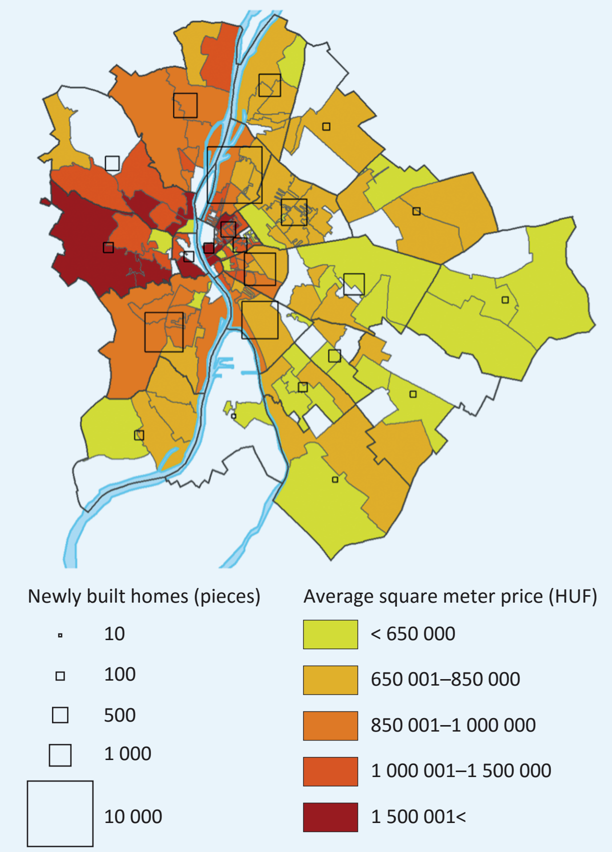
Chart 31
Volume and average square metre price of new homes in development in Hungary



Note: Data for 2019 Q3. Based on projects for more than 10 new homes. The legend for average square metre prices marked in colour is provided under Chart 32.

Source: ELTINGA – Housing Report.

Chart 32
Volume and average square metre price of new homes in development in Budapest



Note: Data for 2019 Q3. Based on projects for more than 4 new homes in Budapest.

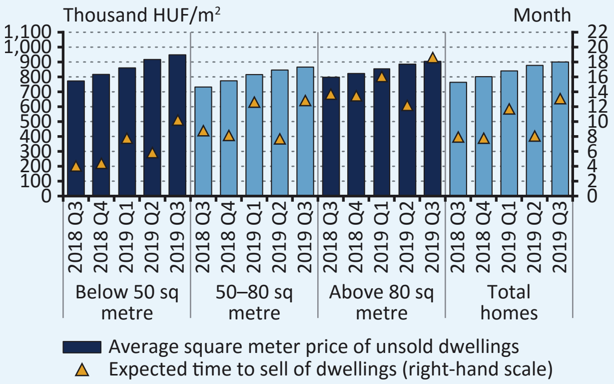
Source: ELTINGA – Housing Report.

square metre prices are significantly higher in Budapest: in 2019 Q3, the average square metre price was HUF 2.14 million in District V, HUF 1.61 million in District XII, and close to HUF 1.5 million in Districts I and II (Chart 32). In the aggregate, new homes in Budapest have an average list price of HUF 901 thousand per square metre.

Expected sale times also increased with constant rise in list prices. The average square metre price of new homes for sale in Budapest rose to HUF 901 thousand by 2019 Q3, representing up to 3 per cent quarter-on-quarter and 18 per cent year-on-year (Chart 33). The largest increase was recorded in the prices of homes under 50 square metres of floor area, up 23 per cent from 2018 Q3. Accompanying the rise in prices, expected sale times increased to an average 13 months. The expected time to sell a home below 50 square metres is about 10 months, while a new home between 50 and 80 square metres is likely to be sold in 13 months, and one with a floor area above 80 square metres in 18 months.

The average square metre price is higher for homes with 5 per cent VAT rate from 2020 onwards compared to homes with 27 per cent VAT rate. We also studied the likely developments in new completions planned in Budapest based on the data of projects in the various stages of planning approval. This provides us with an insight into a wider range of projects compared to the stock on sale, because in this way the number of homes also reflect developments that have already been approved but are not being sold yet. For 2019 H2, 9 thousand new completions are planned in Budapest (Chart 34). Of that volume, 98 per cent was approved prior to 1 November 2018, which also qualifies the sale of these homes for the reduced VAT rate of 5 per cent after 31 December 2019. For 2020, building permit data indicate some 10 thousand new completions, 87 per cent of which are eligible for the 5 per cent VAT. Homes sold at 27 per cent VAT rate are expected to become predominant in 2021, with 51 per cent of planned new completions being subject to the higher rate. When the prices of developments on sale are examined in terms of the applicable VAT rate, it becomes apparent that in many cases, compared to homes with 27 per cent VAT rate, the average square metre price is significantly higher, by an average 8 per cent, for homes with 5 per cent VAT rate from 2020 onwards. A possible explanation is that projects approved between 1 November 2018 and the end of 2019 remain eligible for the 5 per cent VAT until the end of 2019 in respect to the instalments paid by buyers. However, this also means that such homes are likely to be significantly re-priced once more in early 2020, when price differences resulting from VAT regulations become established.

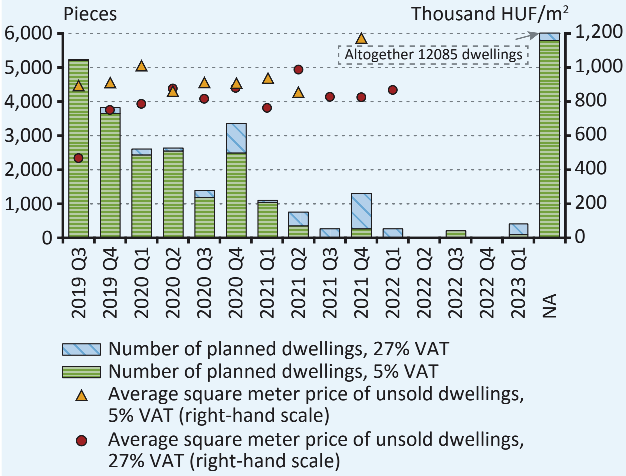
Chart 33
Average square metre price and expected sale time of vacant new homes in Budapest



*Note: Based on vacant, unsold homes in projects for more than 4 new homes. The expected time to sell new homes is calculated as follows: based on the homes sold in the given quarter, we first determine the probability of sale, and then assuming the latter to be constant, we determine the expected time to sell the homes according to the following formula, expressed in months: (2-probability of sale)/2/probability of sale*3*

Source: ELTINGA – Housing Report.

Chart 34
Composition of new completions planned in Budapest by the VAT rate applicable at the time of sale, with the average square metre price for vacant homes



Note: The horizontal axis shows the planned quarter of completion. The VAT rate applicable at the time of sale relates to instalments paid after 31 December 2019. Based on data for 2019 Q3.

Source: ELTINGA – Housing Report.

Box 3
Key messages from the meeting of the Housing Market Section of the Housing and Real Estate Market Advisory Board (LITT)

The Housing and Real Estate Market Advisory Board (LITT or Board) held its second autumn meeting in October 2019, addressing trends in the housing market. A summary of the views expressed at the meeting is provided below.

Demand in the housing market

Board members unanimously reported a fall in housing demand over recent months. Experts highlighted the introduction of the Hungarian Government Security Plus, which was accompanied by an almost immediate 15 to 20 per cent fall in the level of interest in residential property in Budapest. However, the fall could only be observed in Budapest, given the sustained volume of interest in larger towns outside the capital. Consequently, the effect of the MÁP+ has primarily been felt in the fall of investor demand, the presence of which is more prominent in Budapest, while demand from buyers seeking to purchase for their own housing has remained in place. The rise in list prices also appears to be coming to a halt at approximately HUF 720 thousand per square metre. Developers have also perceived a fall in demand in the sale of new homes. Again, they attribute the decline in investment purchases to the launch of the new government securities, while with some of the buyers purchasing for their own purposes, they perceive a wait-and-see approach in anticipation of a moderation in current high prices. In respect to the domestic rental market, the meeting established the predominance of the owners of used homes, where businesses face an obstacle to competition due to the 27 per cent VAT rate charged on rentals. Another problem concerns the absence of proper regulations on the rights and obligations of both lessors and tenants. Poland was cited as a good example with a developed rental housing market where institutional investors buy and sell rental blocks of 200 apartments each.

Supply of new homes

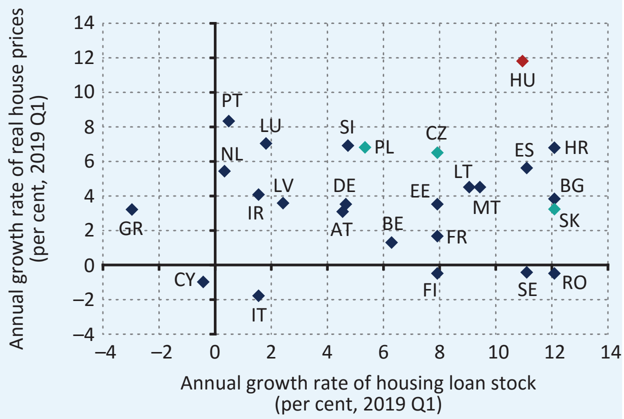
Looking ahead, Board members expect a major decline in the supply of new homes from 2021, which is confirmed by information from building materials merchants. According to the latter, activity has remained perceivable in the construction of detached houses in the Budapest agglomeration, but in Budapest smaller multi-apartment projects with 10 to 50 flats have disappeared. Currently, projects are only being launched on a substantial scale by major housing developers, but even their projects are phased, with new ones launched depending on the level of sales in the previous phase. One of the drivers behind a tighter supply of homes is the increase in construction costs, which is under pressure from the new energy requirements effective as of 2021, the 15 to 20 per cent annual increase in wage costs, as well as the phase-out of the reduced VAT rate of 5 per cent at the end of 2019, all of which hurt the profitability of developments. Others argue that the stricter energy regulations applicable from 2021 should not bring about any major price increases, because the raw materials required under the new regulations are already present on the market, and the effect of the new regulations is already priced in. Some market participants anticipate a 75 per cent drop in the supply of new homes for 2021, considering the possibility that new completions will only result from developments that can be sold at 5 per cent VAT, or pre-sold at 5 per cent VAT by the end of 2019. On those grounds, their view is that budget revenues are not likely to increase either, following the reset of VAT to its previous high rate. As a result of tightening supply, soaring construction costs and the VAT increase, the prices of new homes are expected to rise further, despite falling demand. The opinion was also expressed that enhancing construction capacity could reduce the prices of new homes, which are currently considered too expensive. Long development times caused by continued delays, and high material prices due to the absence of any substantial production of building materials in Hungary were also identified among the reasons for the high costs of housing construction. Overall, the construction sector currently has an apparent preference for offices over homes, given that the latter is less worthwhile both in terms of profitability and productivity.

In connection with high construction costs, the view was also voiced that a decrease in costs was partly prevented by certain efficiency barriers and administrative factors. These include inappropriately selected building properties, inadequate planning documents, the fact that the fire safety regulations in place are among the most rigorous in the European Union, and excessive price increases applied by some manufacturers of building materials and building engineering equipment. Other than that, the constant struggle for scarce labour market capacities also takes up significant resources, and because construction capacities are smaller businesses are often better off operating in the black-market.

It was also argued that the loss of revenue to the central budget related to black-market construction work can be estimated at about HUF 50 billion annually. The formalization of the construction industry could be promoted relatively quickly through the automated verification of a small set of financial data from construction businesses against common benchmarks. Incentives to apply for the HPS and VAT refunds of up to HUF 5 million on private construction are also likely to discourage illegal construction, because eligibility for these schemes requires most of the expenses to be proven with invoices.

Between 2007–2017, the number of homes built and reconstructed fell significantly short of what would be required to maintain the quality of the housing stock. According to Board members, the issue could be addressed through a set of measures setting out programmes for the longer term, and the funds required to achieve housing policy objectives could be raised through the concerted efforts of the private and public sectors. For the purposes of maintaining stock quality, reconstructions should also be treated on equal terms with new buildings. Members underlined the benefits that could be derived from the government setting up a body of housing policy experts that would carry out an extensive, in depth assessment of housing problems, and which would be mandated to develop a complex housing policy programme. Market participants also suggested that apart from supporting acquisitions, other targeted measures to support the affordability of housing should be considered among the various forms of housing policy assistance provided by the government.

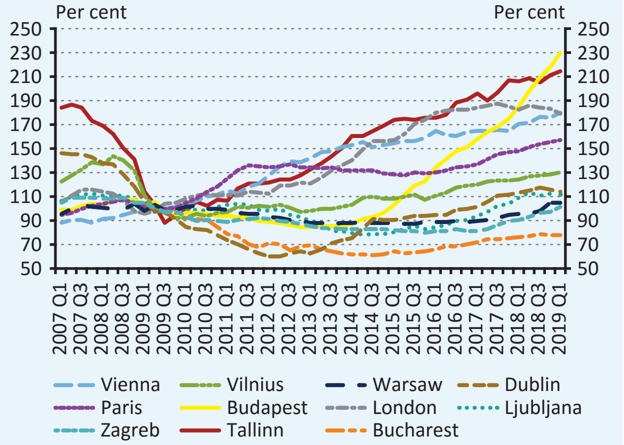
Chart 35
Annual increase in real house prices and the housing loan stock by European comparison



Note: The rate of increase in house prices is based on data from 2018 Q4 in the case of Cyprus, Malta and Luxembourg. Visegrád countries are indicated in green, and Hungary in red.

Source: BIS, ECB, MNB.

Chart 36
Development of nominal house prices in European capitals (average of 2009 = 100 per cent)



Note: Average square metre prices in case of Austria, Poland, France and Estonia, pure price change otherwise.

Source: BIS, MNB.

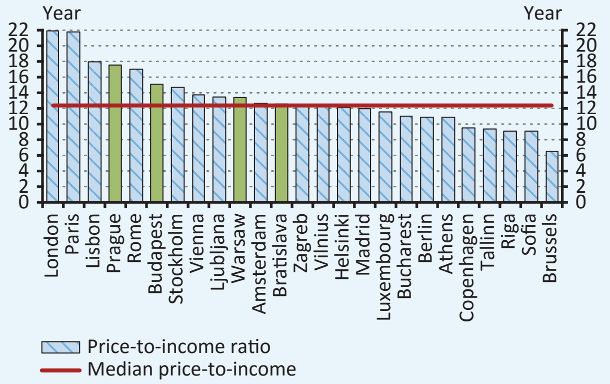
3.3 AN INTERNATIONAL OUTLOOK ON HOUSING MARKET TRENDS

Most European countries are in the upswing of their housing and credit cycles. In most European countries, along with the rise in prices, the portfolio of housing loans is growing year-on-year. In 2019 Q1, only Greece experienced a year-on-year decline in housing lending in parallel with an increase in house prices. By contrast, year-on-year growth in lending in Sweden, Romania, Italy and Finland has been accompanied by house prices falling in real terms. Of the countries under review, Cyprus is the only country where the decline in the annual growth rate of house prices has been accompanied by a slowing growth rate of housing lending, as was the case six months before this. In terms of the housing and credit cycle, Hungary stands out among the countries under review by combining a more than 10 per cent growth rate of the housing loan portfolio with double-digit real annual house price dynamics (Chart 35).

In most European capitals, nominal house prices have been on the rise since 2009. Most European capitals under review are experiencing a rising trend of house prices in nominal terms. The rise in prices has been the most dynamic in Budapest, where in 2019 Q1 house prices were already 130 per cent above the levels seen in 2009. There have also been major increases in nominal prices in Tallinn, Vienna and Paris, while London has seen a slight decline in price levels. Price dynamics continue to be the slowest in Bucharest: in the Romanian capital, in the period under review house prices reached only 78 per cent of pre-crisis levels. Nominal price dynamics are somewhat slower in Warsaw and Zagreb, but in 2019 Q1 average house prices already exceeded their 2009 levels in both capitals (Chart 36).

In terms of price-to-income ratios, Budapest is one of the relatively expensive capitals in Europe. Relative to household income, house prices continue to be the highest in London and Paris among European capitals. In the British and French capitals, a household with a median income in either capital needs an average 22 years of income to buy a home at median price. In Budapest, a household with a median income in the capital needs an average 15 years of income to buy a 90 square metre home in the capital. Among the other Visegrád countries, housing affordability in Prague is outstandingly low even by European standards. Currently, in terms of housing affordability the situation appears to be the most favourable in Brussels, where on average households need less than 7 years of income to buy a home of their own. This is far below the European median of 12 years (Chart 37).

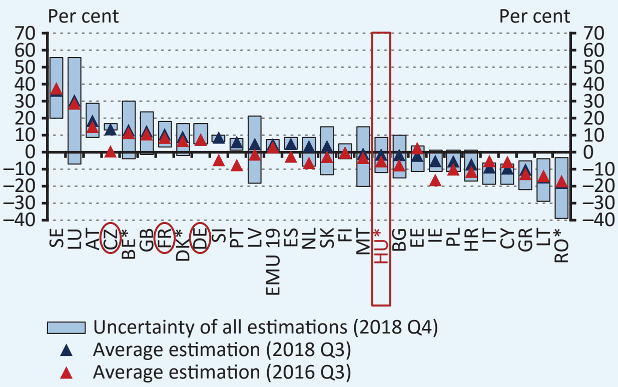
Chart 37
Price-to-income ratios in European capitals



Note: The price-to-income ratio is the ratio of the median house price to 1.5 times the average income. Capitals of the Visegrád countries are marked with a different colour. Calculations based on 90 square metre homes.

Source: Numbeo.com.

Chart 38
Deviation of house prices from the estimated level justified by the fundamentals in European comparison



Note: For countries marked with an asterisk, based on 2018 Q3 data. Countries circled in red were warned by the ESRB in 2019. Norway and Iceland were also warned by the ESRB, but no estimates have been produced for these two countries.

Source: ESRB Risk Dashboard.

Several European countries have been warned again about the build-up of vulnerabilities in their housing markets. According to the calculations of the European Systemic Risk Board (ESRB), as a result of the persistent rise, house prices have already significantly exceeded the level justified by macroeconomic fundamentals in several European countries. Since our previous report in May 2019, the number of Member States for which the ESRB estimate indicates overvaluation has increased from 13 to 15. Previously, in September 2016 the ESRB issued a warning for some countries, stating that the risks emerging in the housing markets of certain countries could have consequences for financial stability in the medium term. Since 2016, 21 countries have seen their valuation levels rise, while in 7 countries there are no signs of overvaluation yet. On 23 September 2019, the ESRB issued warnings to 5 countries, along with recommendations to 6 countries that had already been warned in 2016, on the above vulnerabilities deepening in the housing market (Chart 38).

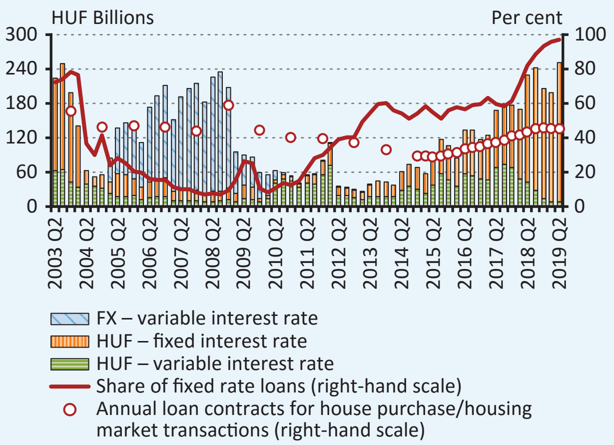
4 Features of the residential mortgage loan market

Up to the end of 2019 Q2, the volume of new housing loans issued by credit institutions amounted to HUF 900 billion year-on-year, a 20 per cent increase over the previous year. Controlled by debt cap rules, the higher volume of new lending did not lead to overindebtedness, while payment-to-income (PTI) regulations differentiated by interest rate period effectively drove borrowers towards longer-term interest rate fixation, reducing the interest rate risk on the new portfolio.

The increase in housing loan volumes is mainly due to a shift towards the purchase or construction of new homes, and to the increase in the average loan contract size in line with the rise in house prices. The number of contracts did not change significantly compared to the previous year; indeed, the latest data point to a slight decrease. The latter may be explained by the crowding-out effect accompanying the prenatal baby support launched in July, which, although coupled with unsecured borrowing, is expected to be used in part for housing purposes due to the contract size available.

Households' demand for credit is also supported by favourable financing costs and trends in wages, government support programmes (HPS, rural HPS, prenatal baby support). Thus there is room for more extensive borrowing for housing both on the basis of the credit-to-GDP ratio and the level of credit penetration. However, due to the rise in house prices, the affordability of home purchase on credit has dropped significantly both in the capital and nationwide. The proportion of housing transactions involving borrowing has not increased substantially over the last year and remains at 46 per cent.

Chart 39
Volume of new housing loans by interest rate fixation and denomination



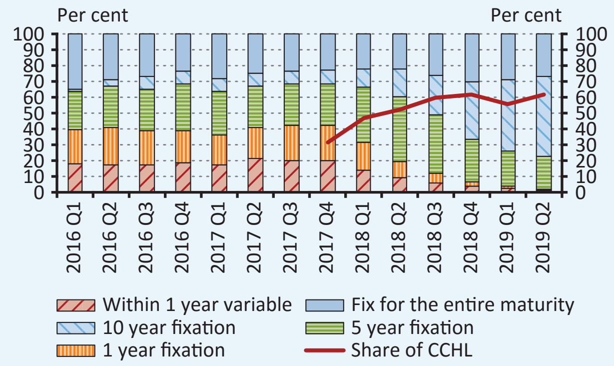
Note: Fixed rate loans are loans with interest rates fixed for periods over 1 year.

Source: MNB.

The share of home purchases on credit has remained below 50 per cent. In each quarter of the last year, 46 per cent of home purchases involved borrowing (Chart 39). This has slowed down the growth seen since mid-2015, with the proportion of home purchases on credit increasing by 16 percentage points over the last four years. The current level corresponds to the figures recorded in 2005–2007 but falls short of the 60 per cent rate seen in 2008, the most intense period of overheating.

There has been another major increase in the volume of new housing loans. The volume of new housing loans issued between mid-2018 and mid-2019 amounted to some HUF 900 billion, whereby the volume issued in the period under review was 20 per cent higher compared to the previous year. The annual volume of new housing loans exceeded the volume issued in 2008 by approximately HUF 50 billion in nominal terms; however, when deflated by the consumer price index, it only reached 83 per cent of the level seen in that year. For the purposes of the comparison, it should also be noted that a significant volume of home equity loans had also been issued before the crisis, and a major part of such loans were also used for housing purposes. In addition, the debt cap rules applied in the current credit cycle limit the maximum level of indebtedness both relative to the value of the property to be purchased, and to repayment capacity as

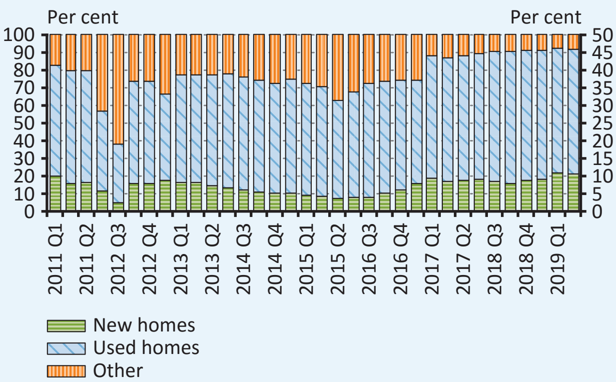
Chart 40
Distribution of housing loan disbursements by interest rate period



Note: Share of Certified Consumer-Friendly Housing Loans in new lending with interest rates fixed for at least 3 years (5 years from 2018 Q4 onwards), net of Home Savings Fund disbursements.

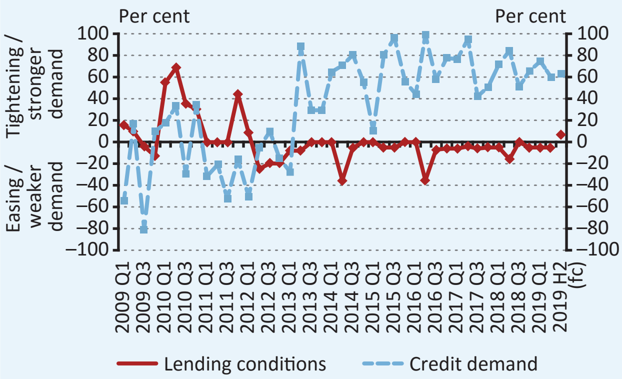
Source: MNB.

Chart 41
Distribution of housing loan disbursements by loan purpose



Source: MNB.

Chart 42
Changes in credit conditions and demand for housing loans



Note: Time series of lending conditions show the net ratio, i.e. the difference between banks tightening and easing, weighted by market share.

Source: MNB, based on banks' responses.

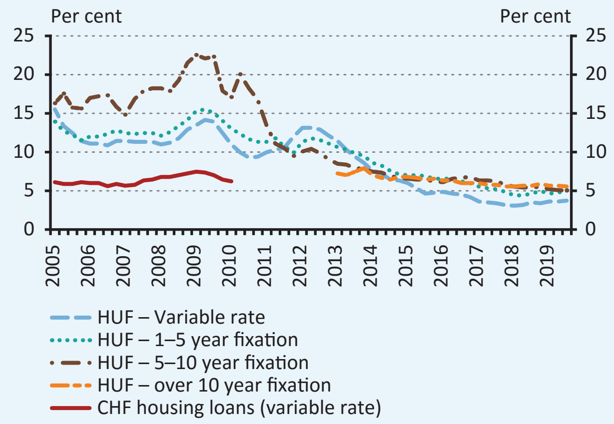
determined by the borrower's monthly income. Finally, the newly built-up portfolio of housing loans also carries lower risks in terms of credit characteristics. Households make forint repayments on their loans, with interest rates fixed for increasing periods: in 2019 Q2, 97 per cent of the new loan volume had already been disbursed with a repricing over one year (Chart 40).

Interest rate on new housing loans is fixed for at least 5 years. As a result of the introduction of Certified Consumer-Friendly Housing Loans and regulations on payment-to-income ratios differentiated by interest rate period, the issue of housing loans repricing within one year and annually has effectively been abandoned over the last one and a half year (Chart 40). The maximum of 50 per cent PTI has been available in the case of loans with interest rates fixed for at least 10 years since October 2018. As a result, the share of these loans has doubled and currently accounts for one-half of the total volume issued. In 2019 H1, 28 per cent of all new housing loans had their interest rates fixed until maturity.

Lending volumes increased for both new and used homes. A breakdown by loan purpose shows that over the last year the volume of housing loans taken for the purchase or construction of new homes has increased by nearly 40 per cent, while the loan amount spent on used homes has increased by about 20 per cent. In contrast, the volume of other housing purposes (reconstruction, upgrades, extensions) decreased by 6 per cent. As a result, in terms of loan purpose, the share of housing loans to finance new homes increased from 16 per cent to 21 per cent in one year, in contrast to a 4-percentage point drop in loans for used homes, and 2 percentage points in loans for other purposes. The contraction seen in other housing purposes is partly explained by borrowers' preference for unsecured consumer loans over the typically smaller and shorter-term loans. Overall, the vast majority of the volume of housing loans, 71 per cent, continues to be spent on used homes (Chart 41).

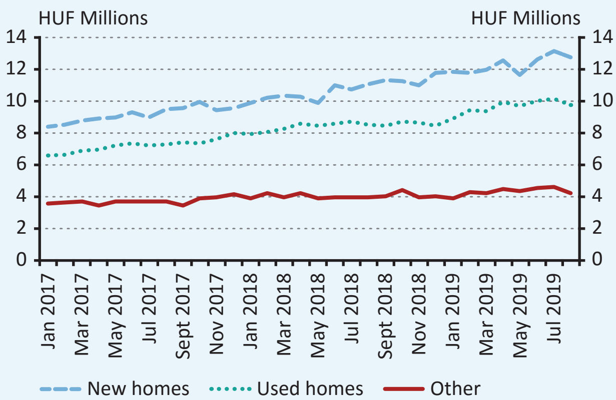
According to banks, buoyant demand for credit is likely to persist even if conditions remain unchanged. For Q1 and Q2, an increase in the demand for housing loans was reported by 75 and 60 per cent respectively of the banks taking part in the Lending Survey (Chart 42), with acceleration expected to continue into 2019 H2. There has been a steady rise in demand since 2013, supported by favourable labour market conditions and trends in wages, as well as a low interest rate environment. However, stronger demand is not yet being accompanied by more easing lending standards according to banks, and the conditions for access to credit have remained unchanged.

Chart 43
APR of new housing loans



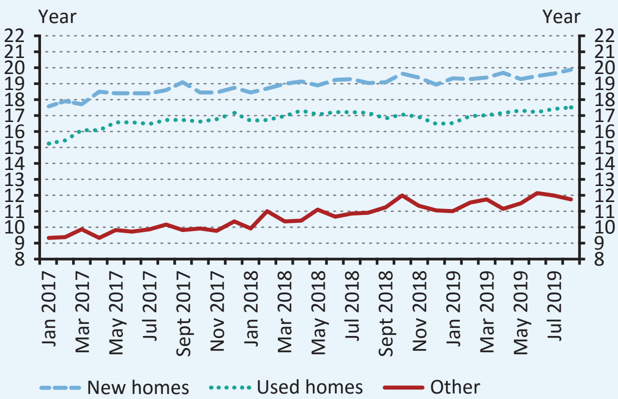
Source: MNB.

Chart 44
Average contract size of new housing loans



Source: MNB.

Chart 45
Average maturity of new housing loans, weighted by contract size



Source: MNB.

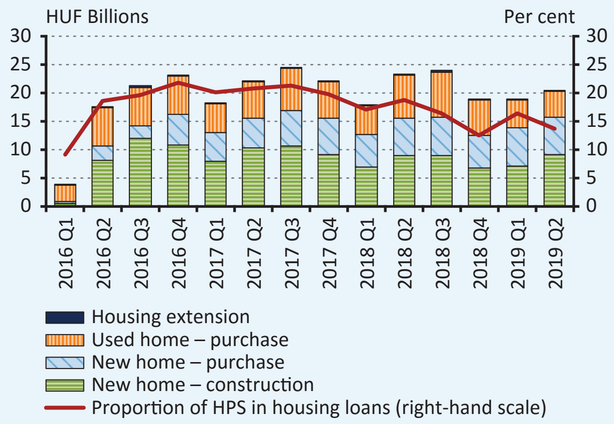
No major movement is expected in that regard over the half-year ahead, the only possible source of change being the adjustment to the debt cap regulations on the payment-to-income ratio. Namely, as of 1 July 2019, the threshold of eligibility for the higher maximum PTI was raised from a net monthly income of HUF 400 thousand to HUF 500 thousand.

Favourable financing costs contribute to sustained demand. At the end of Q2, loans with interest rates fixed for periods of 5 and 10 years had an average APR of around 5 per cent (Chart 43). This was achieved through an increase in the APR of loans fixed for 5 years combined with a decrease in the case of loans fixed for 10 years. The average APR of loans with interest periods over 10 years is 5.5 per cent. In respect to the interest rate spreads, a higher rate of 4 percentage points is observed for 5-year interest rate fixation, while in the case of loans with interest rates fixed for 10 years or longer it varies between 3.4 and 3.5 percentage points. The current financing costs of housing loans are favourable in historical terms.

The average contract size is increasing with constant number of contracts. Year-on-year, the number of new housing loans increased by 2 per cent up to the end of Q2 as a combined result of an 18 per cent increase in loans for new homes, a 4 per cent increase in loans for used homes, and a 12 per cent drop in the number of loans for other housing purposes. Therefore, the annual 20 per cent volume increase is primarily due to this composition effect and to the increase in average contractual amounts in line with rising house prices (Chart 44), rather than the sharp increase in the number of loan contracts. With the increase in the contract size, the debt cap rules in effect have led to a simultaneous increase in average maturity, the length of which, on disbursement, is currently 20 years for a loan to purchase or construct a new home, close to 18 years for a loan to purchase a used home, and 12 years in the case of other purposes. This corresponds to an increase of 1–1.5 years over the last two years (Chart 45).

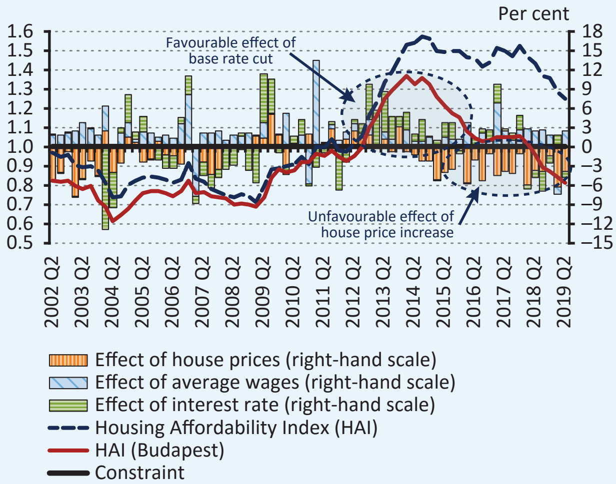
Prenatal baby support can have a simultaneous crowding-out and additional effect on housing lending. As of August 2019, figures show an overall decrease of 5 per cent in the number of contracts year-on-year. This may be related to the prenatal baby support launched under the Family Protection Action Plan in July 2019. This unsecured interest-free loan facility of up to HUF 10 million is currently highly additional, but may also have a crowding-out effect over the longer term on larger personal loans and housing loans (conversely, it may also give rise to further additionality in the case of housing loans due its eligibility as own funds up to 75 per cent).

Chart 46
Volume of contracts in the Home Purchase Subsidy scheme by purpose



Source: MNB, Ministry of Finance.

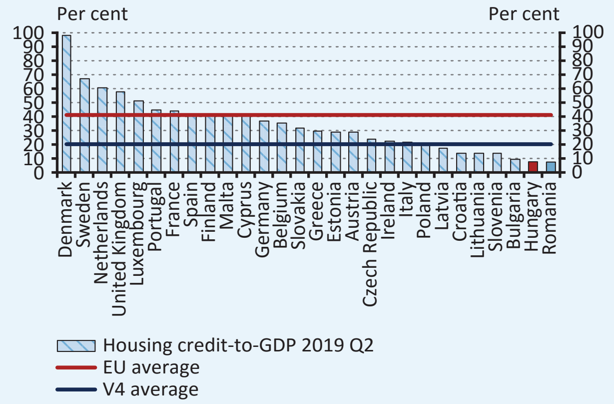
Chart 47
Housing Affordability Index (HAI)



Note: The HAI shows the number of times the income of a household with two average earnings covers the income required for the financed purchase of an average home of 65 square metres. Parameters of the loan product, except for the interest rate, are constant until maturity. LTV = 70 per cent, PTI = 30 per cent, maturity = 15 years.

Source: MNB

Chart 48
Housing credit-to-GDP by European comparison



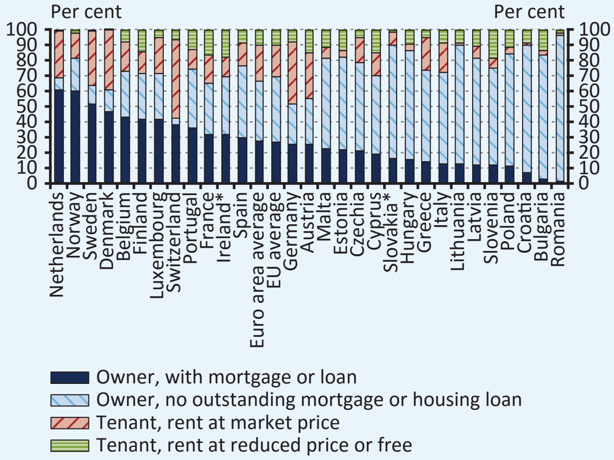
Source: ECB.

The role the Home Purchase Subsidy has stabilized at around 15 per cent within new housing lending. Following the launch of the HPS, on a quarterly average some 20 per cent of new housing lending was linked to this subsidy (either as subsidised or market loans), followed by a slow decrease, then fluctuation around 15 per cent over the last year (Chart 46). Since 2016, a total of 88 thousand subsidy contracts have been concluded with customers, to the aggregate amount of HUF 277 billion. In terms of the purpose of subsidy, the first half of the year saw a shift in focus: while the number of subsidies requested for the purchase of used homes accounted for two-thirds of all contracts before 2019, the ratio dropped to 60 per cent in Q1 this year, then to 56 per cent in Q2. In respect to contract sizes, the weight of used homes dropped from the previous typical 30 per cent to 22 per cent in Q2, while the role of home extensions remains negligible. The launch of the rural HPS as of 1 July 2019, as well as the extension of preferential borrowing terms to purchases of used homes may contribute to a slight increase in the role of the programme in lending in the second half of the year.

The affordability of home purchases on credit deteriorated further. For a household with two average earnings, the affordability of the home purchase on credit of an average dwelling continued to deteriorate in 2019 H1 both nationwide and in the Budapest market (Chart 47). Developments in affordability are primarily driven by house price dynamics: the rise in house prices could not be counterbalanced by the positive effect of higher wages. The negative contribution of interest rates is explained by the composition effect produced by the increased prominence of housing loans with longer interest rate periods. As a result of the trends seen in the first half of the year, the average home is still affordable for the average household on average nationwide, but that is no longer the case as far as the capital is concerned.

Further growth in housing lending could be achieved through higher credit penetration. In Hungary, the ratio of the housing loans portfolio of the household sector to the size of the economy is one of the lowest in Europe, amounting to a mere 8 per cent of GDP, and among EU Member States, higher only than the level observed in Romania (Chart 48). The average of the Visegrád countries is more than 2.5 times that, and the EU average is 41 per cent. This significant difference is partly explained by the relatively low average of the contract size in Hungary, while a significant shortfall compared to Western European countries is also apparent in terms of credit penetration, with only 15 per cent of the Hungarian population living in households that are repaying mortgage loans on the dwellings used for their living (Chart 49). The EU average

Chart 49
Distribution by tenure status by European comparison



*Note: 2018 data. *2017 data.*

Source: Eurostat EU-SILC survey.

in that regard is nearly twice that at 27 per cent, despite the fact that renting is much more widespread in most Member States compared to Hungary. Thus, taking into account households repayment capacity, a further financial deepening could be achieved primarily through an increase in the number of borrowing households, but this is impeded by the deterioration in housing affordability.

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.

HOUSING MARKET REPORT

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