HOUSING MARKET REPORT

2021
MAY

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

Count István Széchenyi

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(May 2021)

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The housing market represents a key area at the level of individual economic agents (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 short- and long-term prospects for economic activity. Overall, it can be stated that the housing market is integrally 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 via its financial position, and also influence the portfolio, profitability and lending activity of financial institutions via 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 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 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 information provided by the Hungarian Central Statistical Office, the National Tax and Customs Administration and real estate agents. 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 experiences and proposals of market participants and general government actors, with the contribution of the Housing and Real Estate Market Advisory Board (hereinafter: LITT), help shed light on the broader questions of housing market trends.*

- *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

As regards the factors determining demand on the housing market, employment and households' real disposable income declined in 2020, owing to the economic impacts of the coronavirus pandemic. During the first half of the period, banks tightened credit conditions, but in the second half of the year they reported moderate easing in the Lending Survey, and demand for housing loans also increased. The volume of new housing loans did not decline compared to 2019, which was also attributable to the housing benefits and family allowance programmes. The ratio of loan-financed home purchases rose from 44 per cent to 47 per cent last year. The state subsidies significantly improve the affordability of home purchases, providing the most help to families with three children.

According to the MNB's house price index, house prices in Hungary continued to rise on average in 2020. However, by the end of 2020 Q4 the annual nominal growth rate had decelerated significantly from 18.1 per cent seen at the end of 2019 to 6.6 per cent. By contrast, in Budapest house prices fell by 0.7 per cent on an annual basis in 2020. The pandemic resulted in varying trends on the domestic housing market. Primarily due to a sharper decline in the second quarter, the number of transactions fell 15.5 per cent nationwide, and dropped by an even larger degree of 25.1 per cent in Budapest in annual terms. Looking at resort areas, the Lake Balaton and Lake Tisza areas performed better compared to the national decline in terms of the number of transactions, while housing market activity also fell to a lesser degree in small settlements eligible for the Rural HPS. In Budapest and its agglomeration, however, the volume of sales and purchases fell to a larger degree.

Looking ahead, the expansionary effect of the new housing benefits may already be a key factor in 2021. Demand for residential real estate rose strongly in 2021 Q1, and banks also anticipate growing credit demand in the first half-year. In line with economic reopening, the unemployment rate is also likely to decline, and households' income trends are expected to improve, which are favourable developments in terms of housing market demand.

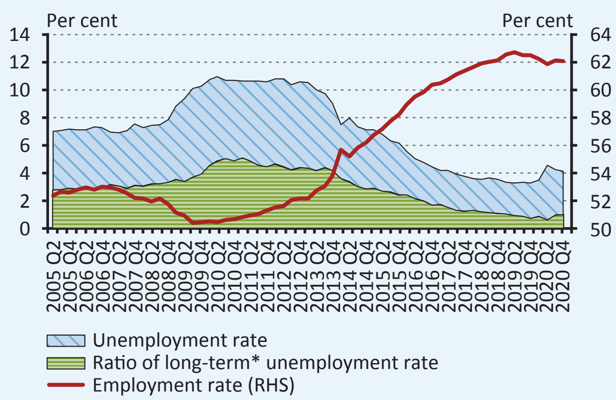
On the supply side, 28,000 new homes were completed in 2020, representing a significant, 33.5-per cent increase versus 2019. The largest increase, i.e. roughly 52.3 per cent, was seen in new completions by natural persons in the countryside, which may have been attributable, among other things, to the expectations related to the energy regulations tightened from 1 January 2021. On the other hand, the number of new construction permits issued declined substantially, dropping by 36 per cent compared to 2019, with the largest fall of about 48 per cent, observed in Budapest. This was primarily attributable to the wait-and-see attitude linked to the regulation on brownfield home developments and cancellation of the preferential VAT rate at the end of 2019. The positive effect of the preferential, 5-per cent VAT on housing, which was reintroduced from 2021, can already be felt. In Budapest residential real estate development activity expanded at a rate of 8 per cent in the first quarter.

2 Demand in the housing market and house prices

In 2020 H2, employment declined, wage dynamics decelerated moderately and disposable real income for households decreased, owing to the economic impact of the pandemic. Gloomier economic prospects prompted households to become more cautious. The unfavourable real economy developments attributable to the effects of the pandemic point towards weaker housing market demand. However, following reopening of the economy, labour market and income trends are expected to improve, which will support housing market demand going forward. Housing affordability is strongly supported by the housing benefits and family allowances. The situation of rural families with three children has improved the most.

In 2020, according to the MNB's house price index, domestic house prices rose further on a national average. However, the annual nominal growth rate eased off significantly, from 18.1 per cent registered at the end of 2019 to 6.6 per cent by 2020 Q4. In Budapest, house prices declined by 0.7 per cent on an annual basis in 2020. Mainly due to the larger decline in the second quarter, the number of transactions fell 15.5 per cent in annual terms in 2020 and dropped by an even larger degree in Budapest, sinking by 25.1 per cent. The decline observed last year may have been also attributable to buyers' wait-and-see attitude at the end of the year, due to the housing benefits coming into effect from 2021. On the other hand, at the beginning of 2021, demand picked up substantially thanks to the new subsidies. Owing to the pandemic, different trends developed at the regional level on the domestic housing market in 2020. In certain resort areas and in settlements eligible for the Rural HPS, the number of transactions declined less compared to 2019. Until September 2020, prices of family homes in Budapest and its agglomeration rose at an outstanding rate, appreciating 18.7 per cent in annual terms.

Chart 1
Unemployment and employment

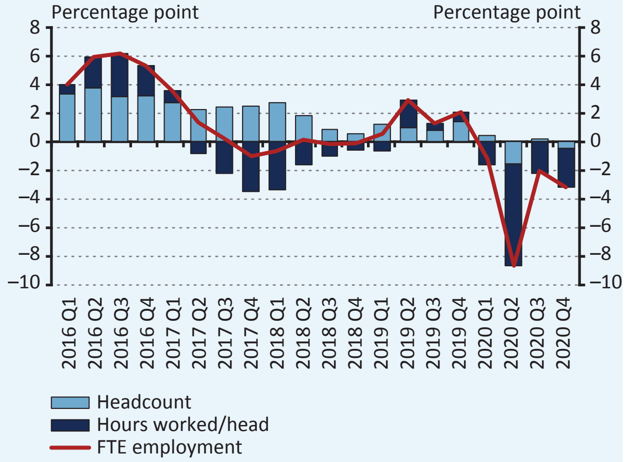


*Note: Age group of 15–74 years. * Unemployed for more than 1 year.*
Source: HCSO

2.1 FOLLOWING THE UNCERTAIN ECONOMIC ENVIRONMENT THAT CHARACTERISED 2020, DEMAND IS EXPECTED TO PICK UP IN 2021

During the second wave of the pandemic, the labour market proved to be resilient, while risks can be identified in the short run. During the second wave of the pandemic, the labour market proved to be resilient, and the unemployment rate gradually declined from the level registered in the second quarter (Chart 1). In line with reopening, the indicator may decline further. Firms tended to adjust to the changed economic circumstances by reducing hours worked during the second wave as well, but to a lesser degree than during the spring (Chart 2). The negative impacts of the pandemic on the labour market

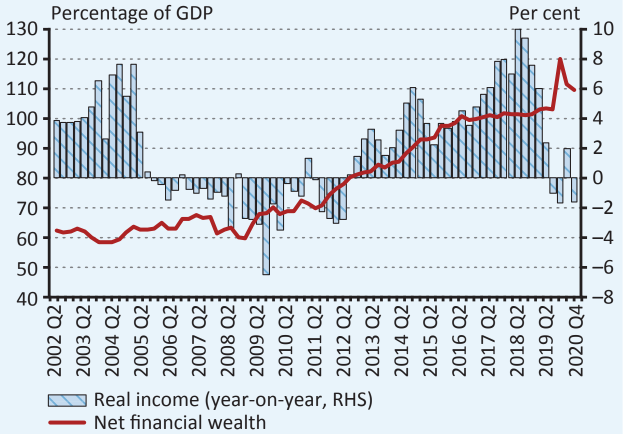
Chart 2
Decomposition of the annual change in full-time equivalent (FTE) employment



Note: Private sector, without employees working abroad.

Source: HCSO, MNB estimation

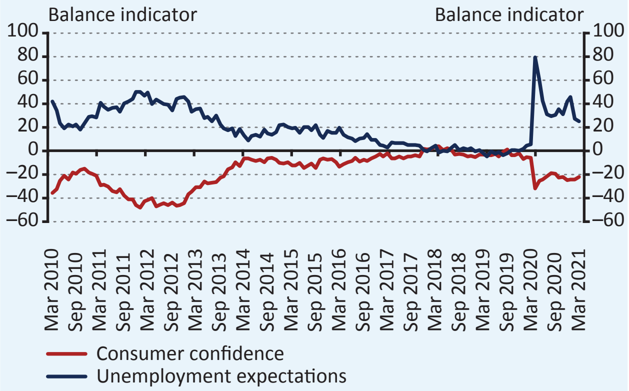
Chart 3
Changes in households' financial assets, liabilities, and real income



Note: Real income based on the net wage bill (employee wages in the age group 15–74 years), other incomes (entrepreneurial income) and government transfers.

Source: HCSO, MNB

Chart 4
Consumer confidence and unemployment expectations



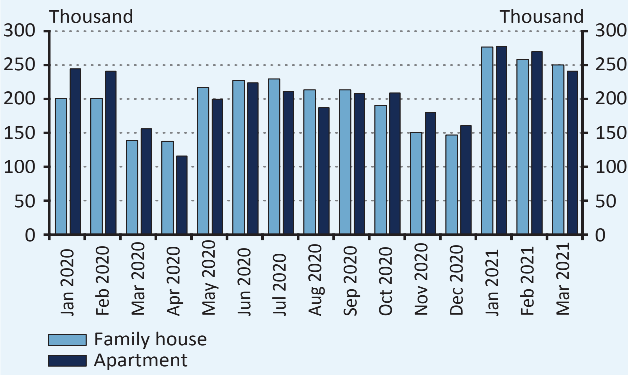
Source: European Commission

were mitigated by the sustained lending, the moratorium on loan instalments and the job protection and employment creation subsidies. On the other hand, the phasing out of the measures that provided support in the acute phase of the pandemic – such as the moratorium and the state subsidies – entails short-term risks on the domestic labour market and credit risks. Wage growth decelerated towards year-end and according to our expectations this may also continue in the future, as the impact of the pandemic may affect this year's wage growth to the largest degree. After this, wage growth may strengthen in parallel with economic reopening, but is still likely to fall short of the pre-crisis rate.

The uncertainty caused by the pandemic and deteriorating income prospects have bolstered households' precautionary considerations. In line with labour market trends, households' real disposable income declined in 2020 (Chart 3). Although households' net financial wealth decreased after the second quarter, it remained at a high level. Households' savings rose, which – in addition to the precautionary reserves and forced savings – may have been attributable to preparatory savings linked to households' home building and home improvement plans. In 2020, households' outstanding borrowing rose 14.2 per cent, strongly supported by the payment moratorium and the high volume of prenatal baby support loan disbursements. While the deterioration in households' income position suggests lower willingness to invest and weaker housing market demand, we expect income trends to gradually improve after the economy is restarted.

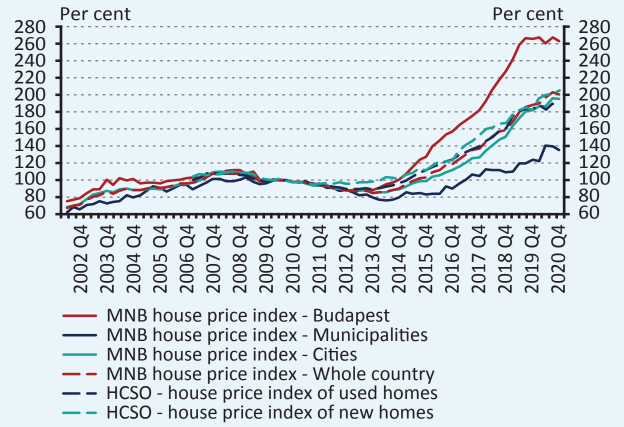
Although the pandemic has increased uncertainty among households, the new housing benefits may support housing market demand. The increasingly uncertain economic environment is also reflected in the substantially higher unemployment expectations and more moderate consumer confidence (Chart 4). The unfavourable labour market and income trends would suggest weaker housing market demand this year, but the new housing benefits (reintroduction of preferential VAT rate of 5 per cent on new homes, VAT reimbursement, home improvement subsidy, duty exemption) may generate a robust recovery in demand in the coming years. Following economic reopening, improving labour market trends may also support housing market demand.

Chart 5
Demand for properties for sale at ingatlan.com (based on the number of revealed phone numbers and calls initiated through mobile application)



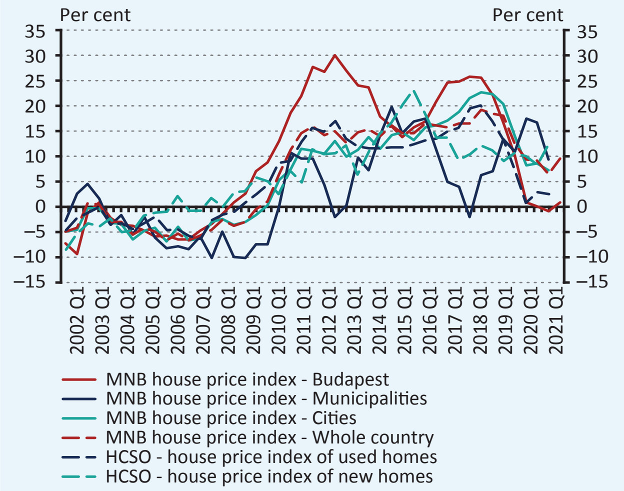
Source: Ingatlan.com

Chart 6
The MNB's nominal house price index by type of settlement and the Hungarian Central Statistical Office's (HCSO) house price indices (2010 = 100%)



Source: MNB, HCSO

Chart 7
Annual growth rate of house price indices



Note: 2021 Q1 on the basis of preliminary housing price indices calculated on data from real estate agents. The preliminary national index was calculated on a sample covering 12.4 per cent of market turnover, while the preliminary Budapest index uses a sample covering 16.1 per cent of turnover in the capital. Source: HCSO, real estate agent database, MNB calculations

The positive impact of new housing allowances is already perceivable, as demand for residential properties rose sharply in early 2021. According to data from the ingatlan.com advertising site, in annual terms, demand for houses and flats for sale rose by 33 and 13 per cent, respectively, during the first two months of 2021 (Chart 5). Strong growth in demand was observed both in the countryside and in the capital, reflecting the impact of the housing benefits and the home improvement subsidy available from January 2021. Demand remained brisk in March as well, but the annual growth rates of 80 per cent and 55 per cent in enquiries for houses and flats, respectively, is largely attributable to the low base due to the onset of the pandemic last March.

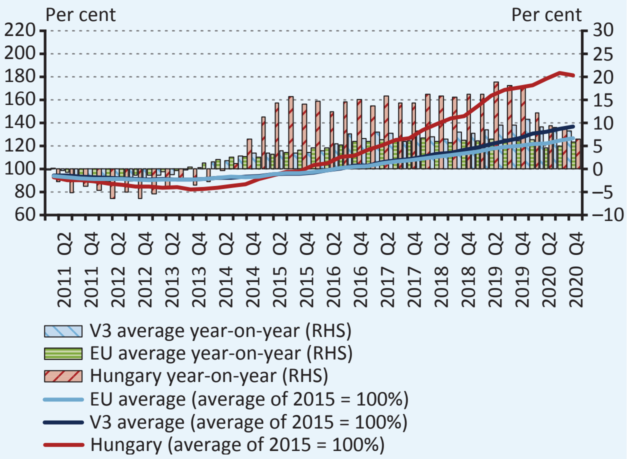
2.2 HOUSE PRICES CONTINUED TO RISE IN 2020, ALBEIT AT A SLOWER PACE

House prices increased in 2020 H2, with stronger growth mainly observed in the countryside. According to the MNB's housing price index, average domestic house prices rose 2.9 per cent in nominal terms in 2020 Q3, followed by a moderate decline of 1.2 per cent in the fourth quarter. During the same periods, house prices in Budapest rose by 2.4 per cent and then declined by 1.4 per cent, respectively. In provincial towns, prices increased above the national average in 2020 H2, while house prices in villages declined during this period (Chart 6). In nominal terms, the level of house prices in Budapest and on a national average exceeds the value registered at the end of 2013, i.e. before the current cycle, by 197 and 136 per cent, respectively.

House price appreciation decelerated significantly in 2020. On a national average, the annual nominal growth rate of house prices declined from 18.1 per cent in 2019 Q4 to 6.6 per cent by the end of 2020. In this period, annual house price appreciation in Budapest fell from 16.7 per cent to -0.7 per cent, i.e. for the first time after a long time house prices in Budapest were lower than a year earlier. In 2020, the rate of price appreciation in rural towns and villages also slowed down. In the first category, it fell from 20.4 per cent at the end of 2019 to 7.4 per cent and dropped from 13.5 per cent to 9.5 per cent in the latter category. According to the HCSO's measurement in 2020, the price of newly built homes increased at a substantially higher rate than that of used homes. The annual appreciation of new and used house prices was 12.6 and 2.7 per cent, respectively, in the fourth quarter (Chart 7).

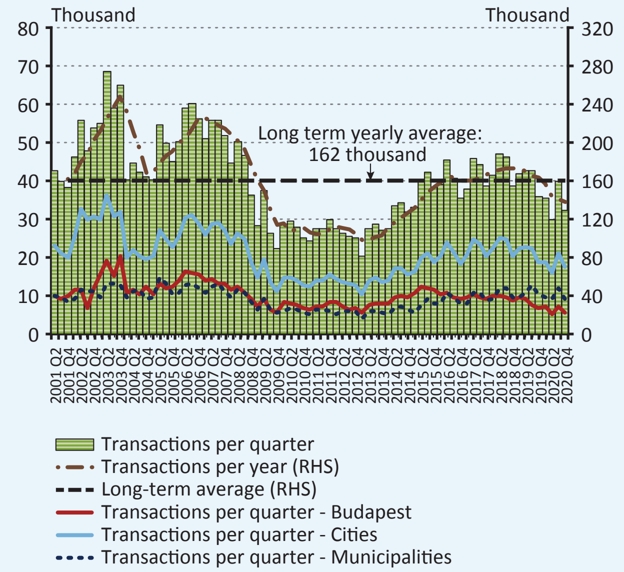
According to real estate agents' data, house price appreciation accelerated in 2021 Q1. According to the preliminary house price indices calculated using real estate agents' transaction data, the annual nominal growth rate of house prices rose from 6.6 per cent in the previous

Chart 8
Nominal house price developments in Europe



Source: Eurostat, MNB

Chart 9
Quarterly and annual number of housing market transactions between individuals



Note: Taking into account only the ownership acquisitions of 50 and 100 per cent. 2020 Q1 – 2020 Q4 based on estimation. Long-term average: 2001 Q1 – 2020 Q4.

Source: MNB

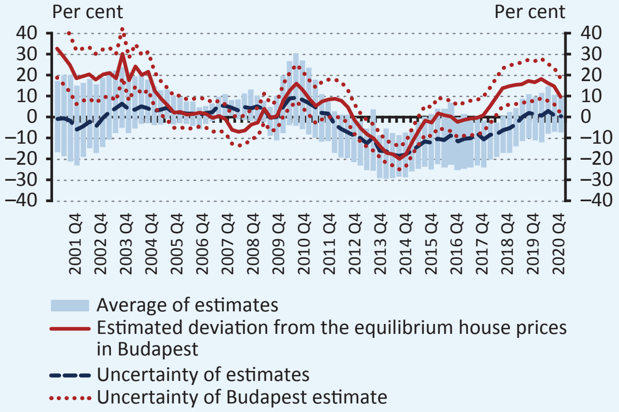
quarter to 9.6 per cent on a national average in 2021 Q1, and from -0.7 per cent to 0.9 per cent in Budapest (Chart 7). This acceleration in price appreciation is in line with the expansion of demand early in the year. At the same time, the transaction data underlying the calculations only cover 12.4 per cent of this market, and thus the sub-market of agents may also follow slightly different trends compared to the residential market as a whole.

In 2020, the annual rate of house price appreciation in Hungary fell below the average of the region. Based on the housing market price indices showing the average of the EU Member States and of the Visegrád countries without Hungary (V3), on average property prices in the EU and the Visegrád countries exceeded the levels registered at the end of 2015 by 37 and 49 per cent, respectively, in 2020 Q4 (Chart 8). In the housing market cycle that started in 2014, Hungary exhibited a more dynamic increase in house prices compared to both Europe and the narrower region, as prices doubled during the period under review. However, in previous quarters annual growth in house prices started to fade in Hungary and by 2020 it had fallen below the level of 8.4 per cent of the V3 countries and was close to the European average of 6.0 per cent.

The number of housing market transactions declined in 2020 due to the pandemic. According to our estimates, private individuals concluded roughly 138,700 sale and purchase contracts on the domestic housing market in 2020, down 15.5 per cent on the number of transactions from 2019. This decline is primarily attributable to the restrictive measures linked to the pandemic. That said, transactions being postponed in anticipation of the housing benefits effective from 2021 may have also contributed to the decline. Compared to 2019, the number of transactions fell to the largest degree in Budapest in 2020, with a decline roughly 25.1 per cent, while the decline in rural towns and villages was 15.1 and 9.0 per cent, respectively. Last year, the largest decline was observed in the second quarter, when the number of housing market transactions fell by 30.1 per cent. The decline was substantially larger than that in Budapest, amounting to 45.6 per cent (Chart 9).

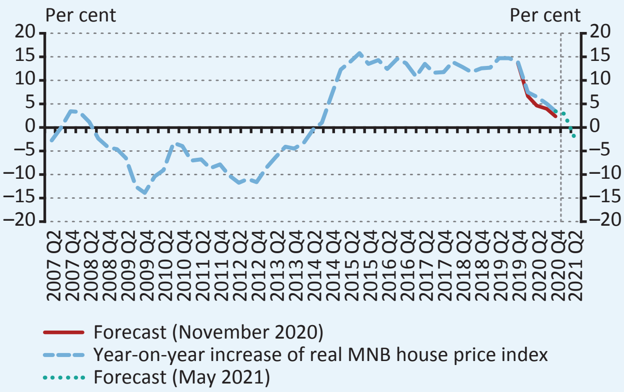
Based on the transactions concluded by real estate agents in 2021 Q1, the Hungarian housing market expanded significantly. Based on agents' transaction data, the number of transactions rose significantly in 2021 Q1, increasing by 29 per cent nationwide and 30 per cent in Budapest. This growth may signal the expansionary effect of the new housing benefits starting from the beginning of 2021. At the same time, the robust annual growth may also be due to the low year-on-year base, which already contained the impact of the pandemic.

Chart 10
Deviation of house prices from the level justified by fundamentals, nationwide and in Budapest[3]



Source: MNB

Chart 11
Forecast of the MNB's aggregated real house price index (annual change)



Source: MNB

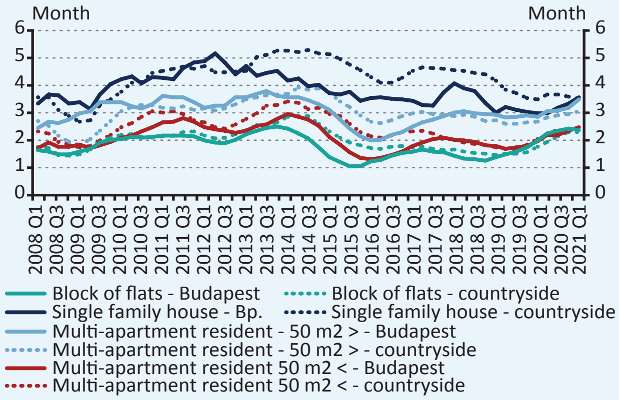
The risk of house price overvaluation eased considerably in Budapest. By 2020 Q4, the annual growth rate of domestic house prices in real terms had sunk to 3.7 per cent, from 14.2 per cent registered in 2019, and from 12.9 per cent to -3.4 per cent in Budapest. In parallel with this, demand side fundamentals determining the housing market – such as unemployment and households' income position – deteriorated somewhat owing to the pandemic; however, the extent of this was limited and lending also decreased only to a smaller degree last year. On the whole, real house prices in Budapest declined to a larger degree than the fundamentals influencing the housing market. Accordingly, the risk of the overvaluation of house prices in the capital substantially decreased (Chart 10) in our estimation. On a national average, house prices developed in line with the economic fundamentals in 2020. **3**

The dynamic growth in real house prices may cease in the first half of 2021. In 2020 H2, macroeconomic fundamentals underlying the housing market (labour market and income trends) developed less favourably than in previous years, contributing to the deceleration in annual home price appreciation. The pandemic negatively impacts households' real earnings and the long-term unemployment rate, which shape longer term income prospects. Based on the macroeconomic fundamentals for the housing market, according to our expectations real house prices may have appreciated 3.2 per cent in 2021 Q1, while in the second quarter an annual decline of 1.9 per cent may be expected (annual nominal growth rate of 6.4 and 3.0 per cent, respectively) – in line with the macroeconomic path projected in the March Inflation Report (Chart 11). At the same time, looking ahead, the housing benefits starting from 2021 may push house price appreciation upwards, both in terms of demand and construction costs.

Compared to previous years, the time needed to sell family houses in the countryside is at a low level. In 2020, on the whole the median time to sell residential properties increased from 2.6 months to 3.1 months, i.e. it typically took longer to sell homes during the year than in 2019 (Chart 12). In 2020, the median time to sell increased the most in the case of panel flats, from 1.6 to 2.3 months in the countryside and from 1.7 to 2.4 months in Budapest.

[3] The deviation of house prices from the level justified by fundamentals is quantified based on four methodologies. In the report, we publish the minimum, maximum and average values of the results generated 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 2020. 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 the detailed methodology, see: Berki – 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 housing 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.

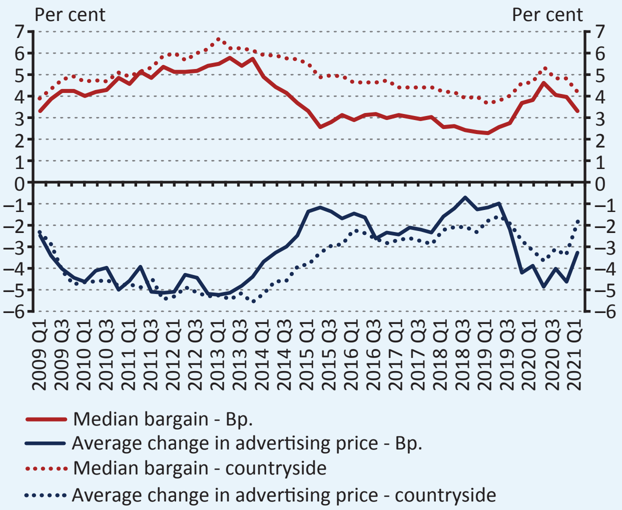
Chart 12
Median time to sell residential property, broken down between Budapest and the provinces, and by type of property



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

Source: MNB, real estate agent database

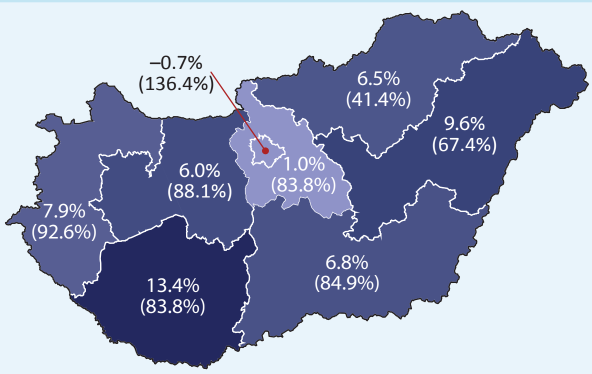
Chart 13
Median bargain in the Budapest and rural housing markets, with the average change versus the asking price



Note: Bargain: percentage shortfall of the transaction price compared to the last listed price. Change in asking price: percentage change applied to the asking price during the advertising period.

Source: MNB, real estate agent database

Chart 14
Development of urban house prices by region between 2019 Q4 and 2020 Q4 (between 2008 Q4 and 2020 Q4)



Source: MNB

The median time to sell flats smaller than 50 square meters in multi-apartment properties also increased substantially. However, the median time on the market for rural family houses did not increase in 2020 and is low compared to previous years, signalling recovering demand.

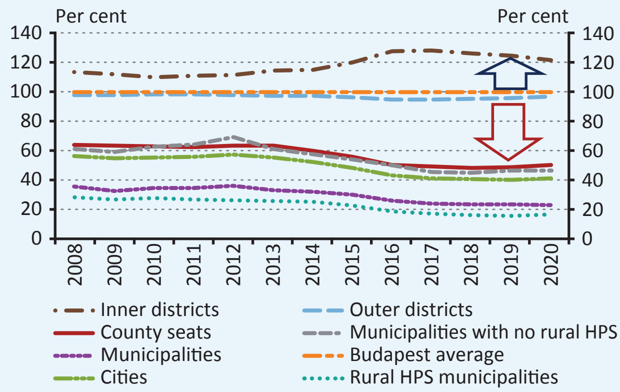
In the countryside, typical bargaining fell back to the level observed in 2019. Compared to the supply, housing market demand already fell significantly in 2019, before the pandemic, as was clearly reflected by indicators describing market conditions. In 2019 Q4, the median bargain in the market increased substantially, and sellers also reduced the list price during the advertising period by a larger degree on average (Chart 13). This trend continued in the first half of 2020 as a result of the coronavirus pandemic. In 2020 Q2, the median bargain in the market rose to 4.5 per cent in Budapest and to 5.3 per cent in the countryside. Starting from 2020 Q3, however, in line with the rise in housing market transactions compared to the second quarter, the median bargain in the market once again decreased to 3.2 per cent in Budapest and to 4.1 per cent in the countryside by 2021 Q1. In addition, during the advertising period, advertisers tended to reduce the asking price by a lesser degree on average.

2.3 DESPITE THE CORONAVIRUS PANDEMIC THE HOUSING MARKET IS MORE ACTIVE IN THE COUNTRYSIDE

Prices rose in all regions of the country last year, and a fall in prices was only measured in the capital. Between the fourth quarter of 2020 and 2019, with the exception of the capital, house prices rose in the towns of all regions. Double-digit annual price appreciation was realised only in the towns of the Southern Transdanubia region (13.4 per cent), followed by towns in the regions Northern Great Plain (9.6 per cent), Western Transdanubia (7.9 per cent), Southern Great Plain (6.8 per cent), Northern Hungary (6.5 per cent), Central Transdanubia (6.0 per cent) and Central Hungary (1.0 per cent) (Chart 14). The recovery of the housing market since 2014 and the degree of accompanying price appreciation show major regional differences in Hungary. Compared to end-2008, the level of urban house prices is still the highest in Budapest in nominal terms, exceeding the level registered then by 136 per cent on average. Between 2008 and 2020 Q4, after Budapest, the largest price rise in the housing market was registered in the towns of the Western Transdanubia, Central Transdanubia and Southern Great Plain regions, with price increases of 93, 88 and 85 per cent, respectively.

The price gap between the square metre prices in the county seats and in the capital narrowed in 2020. As

Chart 15
Average square metre price by type of settlement (average of Budapest = 100 per cent)



Source: NTCA, MNB

a result of the price increase which commenced in 2014, the difference in house prices increased substantially between Budapest and the rural, particularly smaller settlements. While the average square metre prices in the county seats, provincial towns and municipalities amounted to 63.4, 55.6 and 33.0 per cent, respectively, of the average in Budapest in 2013 due to the larger increase in prices of residential properties in Budapest, the same ratios decreased to 48.8, 40.2 and 23.8 per cent, respectively, by 2019. However, in 2020 average square meter prices rose in the county seats by 6.4 per cent and in Budapest by merely 2.6 per cent, as a result of which the price gap between the country seats and the capital narrowed somewhat (Chart 15). Potential further narrowing of the price gap could reduce the outflow from the capital to the agglomeration or to the countryside.

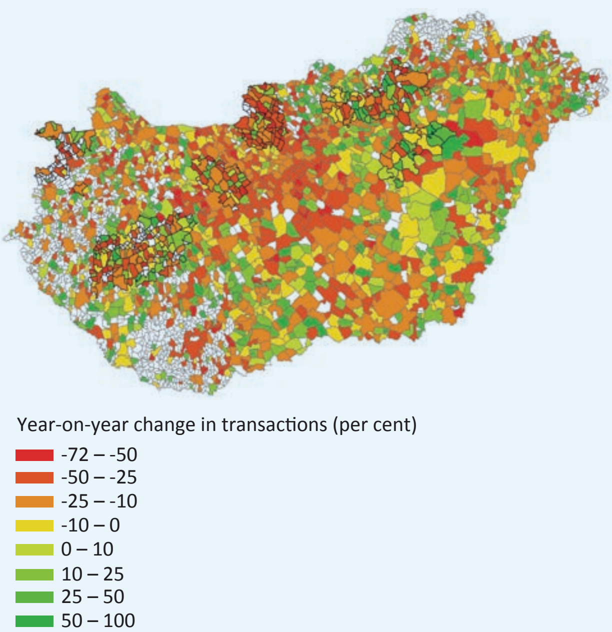
Box 1
Regional impact of the pandemic on the housing market

In this Box, we examine how housing market trends developed last year during the pandemic in the various regions of Hungary, in the case of certain settlement types and property types.

Due to the activity observed in the second half of the year, the number of sales and purchases declined to a substantially smaller degree versus 2019 in the settlements in the area of Lake Balaton compared to the national average, while in the vicinity of Lake Tisza a rise was even measured. Altogether, in the resort areas the number of sales and purchases declined by 14.5 per cent in annual terms in 2020, which is slightly lower than the decline of 15.5 per cent measured nationwide, while certain resort areas, such as Lake Tisza and Lake Balaton excel compared to the rest. In settlements in the vicinity of Lake Balaton, a decline of 5.8 per cent was registered, while in the settlements in the Lake Tisza region the number of sales and purchases realised in 2020 exceeded those in 2019 by almost 8.9 per cent, which makes them stand out among the resort areas. In recent years, the largest decline – almost 29.5 per cent – due to the pandemic was observed in the resort areas in the second quarter, which fits in with the trends observed nationwide. However, starting from summer the number of sales and purchases increased in these settlements, particularly in the towns in the vicinity of Lake Tisza and Lake Balaton, whereas housing market activity continued to decline at the national level in the third quarter.

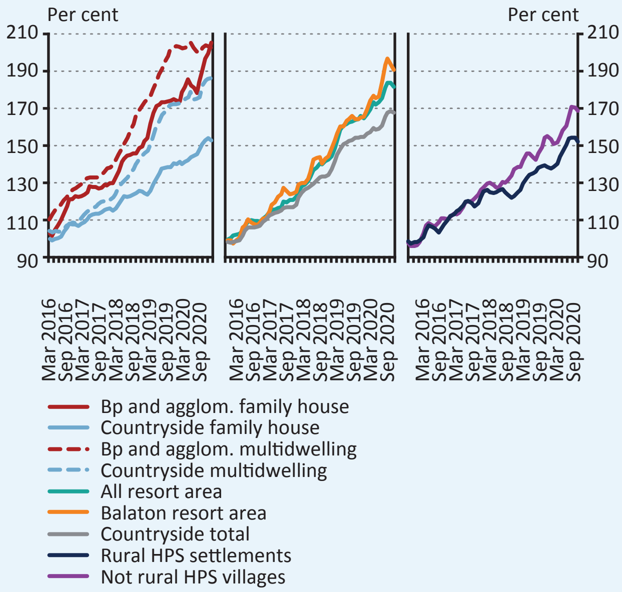
In the settlements of the agglomeration, the decline exceeded the national average in 2020, particularly in the vicinity of the capital. In 2020, the number of sales and purchases in the agglomeration settlements fell by 18.5 per cent in annual terms, exceeding the decline of 15.5 per cent observed nationwide. The number of transactions fell to the largest degree in

Year-on-year changes in transactions concluded in Hungary between 2019 and 2020



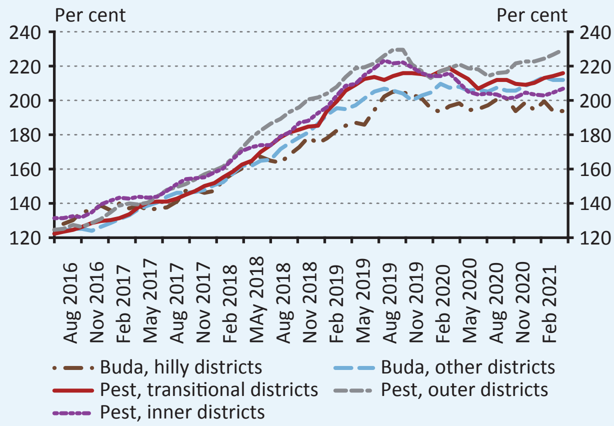
Source: NTCA, MNB

House price incices by certain areas and by type of property (2015 = 100%)



Source: NTCA, MNB calculations

House prices in district groups of Budapest (2015 = 100%)



Megjegyzés: Budai hegyvidéki kerület: I., II., XII., Budai egyéb kerület: III., XI., XXII., Pesti belső kerület: V., VI., VII., VIII., IX., Pesti átmeneti kerület: X., XIII., XIV., XIX., XX., Pesti külső kerület: IV., XV., XVI., XVII., XVIII., XXI., XXIII.

Forrás: MNB real estate agent database, MNB calculations.

the agglomerations of Budapest and Érd, dropping by 34.3 and 33.0 per cent, respectively, but all other agglomeration areas also registered a decline. However, in line with the national trends, the housing market showed signs of recovery in several agglomeration areas in the fourth quarter. However, in the settlements in the vicinity of Budapest, the number of sale and purchase transactions declined even in the last three months of the year.

The housing markets in settlements eligible for the Rural HPS proved to be more crisis-proof than other villages. In 2020, in the settlements eligible for the Rural HPS the number of sale and purchase transactions fell by 6.6 per cent in total while in other settlements it declined by 20.7 per cent in annual terms. Comparing the supported and unsupported settlements within the individual counties, we also find that the housing market shrank to a smaller degree in the former compared to the latter. Tolna, Békés, Nógrád and Jász-Nagykun-Szolnok counties even registered growth rates of 5.9, 2.7, 2.5 and 1.3 per cent, respectively, in the supported settlements. The resort areas observed similar trends as the national trend in 2020, as the decline in the number of transactions in the resort areas eligible for the Rural HPS was 8.1 per cent in total, while in other resort areas it was 19.7 per cent compared to previous year.

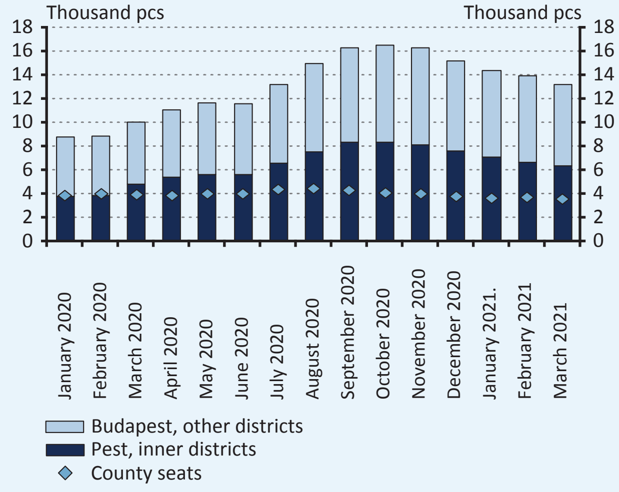
From the summer of 2020, prices of family houses in Budapest and in its agglomeration increased significantly, while prices of condominium residential properties only rose in the countryside. Based on the estimated house price indices,[4] during the pandemic different trends developed in terms of the change in house prices, based on both region and property type. Between September 2019 and 2020, prices of family houses in Budapest and its agglomeration rose significantly, by 18.7 per cent on average, while prices of condominium homes stagnated. In the countryside, excluding the agglomeration of the capital, the difference in the change in the prices of the individual property types appears to be smaller in the same period: prices of family houses and flats rose on average by 9.5 and 8.3 per cent, respectively, in one year. In recent years, settlements in resort areas showed larger price increases compared to the average of provincial settlements between September 2019 and 2020, while in the resort area of Lake Balaton, prices rose by 16 per cent compared to the average rise of 8.7 per cent registered by provincial settlements. On the other hand, in September 2020, in the settlements eligible for the Rural HPS the annual house price dynamics appeared to be weaker compared to villages not eligible for support.

[4] For the analysis we used the hedonic regression models, also used for the MNB's housing price index, narrowed down to specific areas and property types, the results of which are evaluated until 2020 Q3. This is due to the fact that for 2020 Q4 the processing level of the NTCA transaction data, serving as source, is low, and thus the individual indices would provide unreliable results on a monthly basis.

Within Budapest, changes in house prices were heterogeneous by certain groups of districts in 2020. A larger decline was measured in the inner districts of Pest. Based on the house price indices calculated on the basis of real estate agents' transaction data,[5] house prices rose in certain groups of districts in Budapest, while they declined elsewhere. In February 2021, the largest fall in house prices – amounting to 4.4 per cent on an annual basis – was measured in the inner districts of Pest. In these districts, rents also declined at an increasing rate as a result of the pandemic. In February, house prices fell by 1.6 and 1.3 per cent, respectively, in the hilly district of Buda and the transitional districts of Pest, in an annual comparison, while in the outer districts of Pest and other district of Buda, prices rose by 5.0 and 2.2 per cent, respectively.

As regards the number of transactions, on the whole, due to the housing market activity observed in 2020 H2, the number of sale and purchase transactions declined to a much smaller degree in settlements in the vicinity of Lake Balaton compared to the national average, while some growth was even measured in the vicinity of Lake Tisza. Housing market activity weakened to a larger degree in the agglomeration settlements than the national average. On the other hand, settlements eligible for the Rural HPS proved to be more crisis-proof, as the housing market shrank to a lesser degree in these villages compared to unsupported settlements. As regards changes in house prices, the price increase in Budapest and in its agglomeration was outstanding, while prices of condominium flats stagnated. The rise in family house prices was more spectacular in the provincial settlements. On the whole, the house price appreciation measured in the resort areas, particularly around Lake Balaton, is higher than in the countryside. In addition, in Budapest house prices declined in the downtown districts, the rate of which, however, was not extreme.

Chart 16
Supply of residential properties to let at ingatlan.com on the last day of the given month



Source: Ingatlan.com

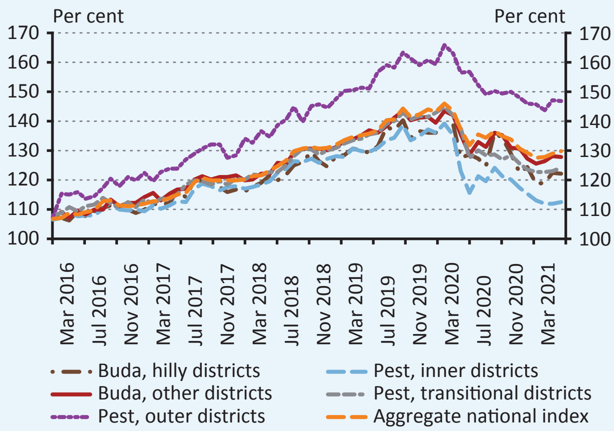
2.4 RENTS IN BUDAPEST DECLINED, IN PARALLEL WITH THE EXPANDING SUPPLY OF RENTAL FLATS

The supply of flats to rent expanded significantly, also owing to the falling number of foreign tourists resulting from the pandemic. Since the onset of the pandemic in Hungary, the number of dwellings available for long-term rent has risen significantly in Budapest, primarily in the downtown districts, where the dwellings formerly popular with tourists, typically let for the short term, are located (Chart 16). Based on the data of ingatlan.com, supply peaked in Budapest at the end of October 2020 – with more than 16,000 flats to rent – but even at the end of March 2021 the number of flats on the rental market was roughly 13,000, representing a year-on-year rise of almost 31 per cent. The strongest growth in supply was observed in the downtown districts of Pest, where the rise in dwellings offered for long-term rental exceeded even 33 per cent in the same period. No expansion of supply was observed in county seats.

Due to the rising supply, rents declined most in the inner districts of the capital. Parallel to the growing supply, average rents declined considerably in Budapest (Chart 17).

[5] We used hedonic regression models, similar to the MNB housing price index, to measure the change in house prices in Budapest, estimated on the transaction data of real estate agents' database. Although this database has a lower number of elements compared to NTCA's transaction database, it contains substantially larger volume of quality variables on the properties, which improves the results of the hedonic regression models on the more homogeneous sub-market comprising e.g. a high ratio of multi-apartment residential properties.

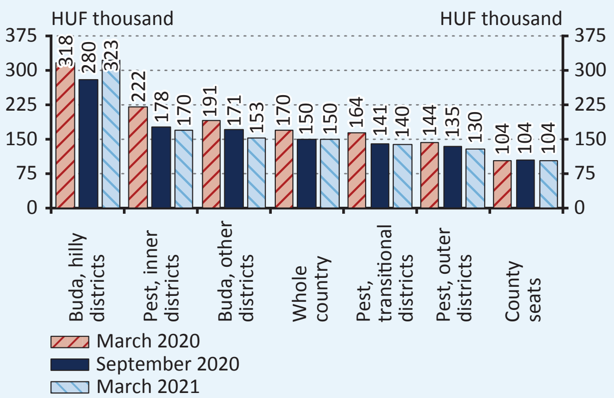
Chart 17
Rent indices of groups of districts in Budapest based on flats to rent advertised on ingatlan.com (2015 = 100%)



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

Source: HCSO-ingatlan.com

Chart 18
Average rents of residential properties to let based on listings at ingatlan.com



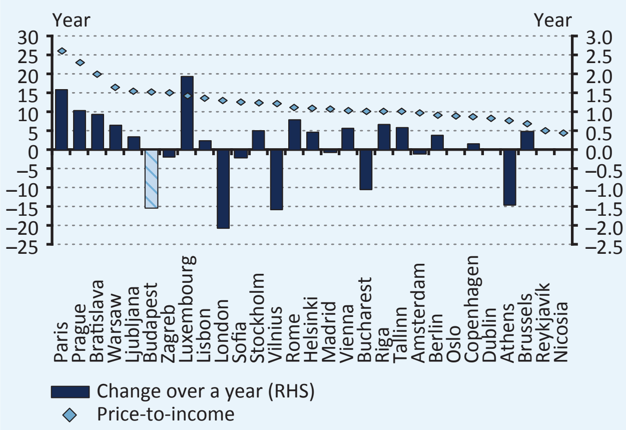
Note: The square meter prices are average values of the groups. Buda, hilly districts: I., II., XII., Buda, other districts: III., XI., XXII., Pest, inner districts: V., VI., VII., VIII., IX., Pest, transitional districts: X., XIII., XIV., XIX., XX., Pest, outer districts: IV., XV., XVI., XVII., XVIII., XXI., XXIII.

Source: HCSO-ingatlan.com

Based on the HCSO – ingatlan.com rent index, in March 2021 the year-on-year decline in rents was 7.3 per cent in the capital and 5.5 per cent on a national average. On the other hand, examining the change compared to the pre-pandemic price levels, a more significant price decrease can be observed: In Budapest and on a national average, rents were down 13.3 and 9.8 per cent, respectively, in March 2021 compared to February 2020. A double-digit drop was observed in rents in all district groups in Budapest compared to February 2020. However, the largest decline of roughly 17.1 per cent in rents was measured in the inner districts of Pest. Over the past one year, the change in rents was smaller in the provincial regions than in Budapest. In the Southern Great Plain, Southern Transdanubia, Central Transdanubia and Western Transdanubia regions, rents declined by 1-2.7 per cent, while in the northern regions they remained unchanged between February 2020 and March 2021.

In the past one year the gap between average rents in the capital and in the countryside narrowed substantially. As a result of the rental market trends observed last year, by the end of 2021 Q1 the gap between the rents of properties located in the capital and in the county seats fell significantly. In March 2020, rent for an average rental flat in the capital was HUF 96,000 higher, but this difference in rents had declined to HUF 56,000 by March of this year. As regards the rental market in the capital, at the end of March the highest rents were observed in the hilly districts of Buda, where the average monthly rent was HUF 323,000, which stands out from the average rents observed in other groups of districts (Chart 18). At present, in the inner districts of Pest, which have been hit by a significant fall in rents, a property can be rented for HUF 170,000 on average, followed by other districts of Buda, the transitional districts of Pest and the outer districts of Pest, with average rents of HUF 153,000, HUF 140,000 and HUF 130,000, respectively.

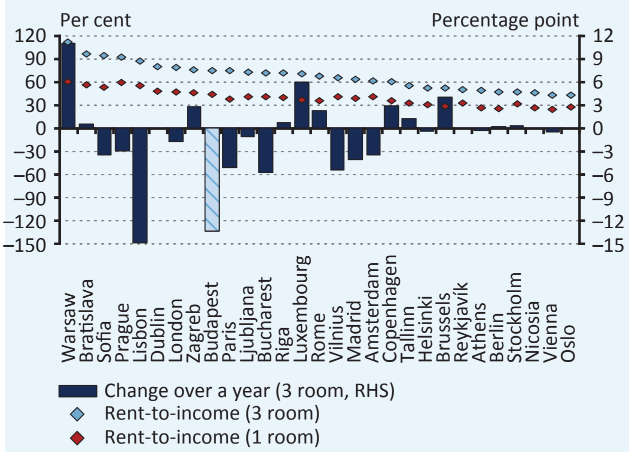
Chart 19
Price-to-income ratios in European capitals (2021 Q1)



Note: The price-to-income ratio is the ratio of the average house prices to the national average wage. Calculations based on 75-square metre homes. Change between 2020 and 2021 Q1. Budapest is marked in a different colour.

Source: Eurostat, numbeo.com

Chart 20
Price-to-income ratios in European capitals (2021 Q1)



Note: The rent-to-income ratio is the quotient of the rent for a typical rental flat in the capital and the national monthly net average income. Change between 2020 Q1 and 2021 Q1. Budapest is marked in a different colour.

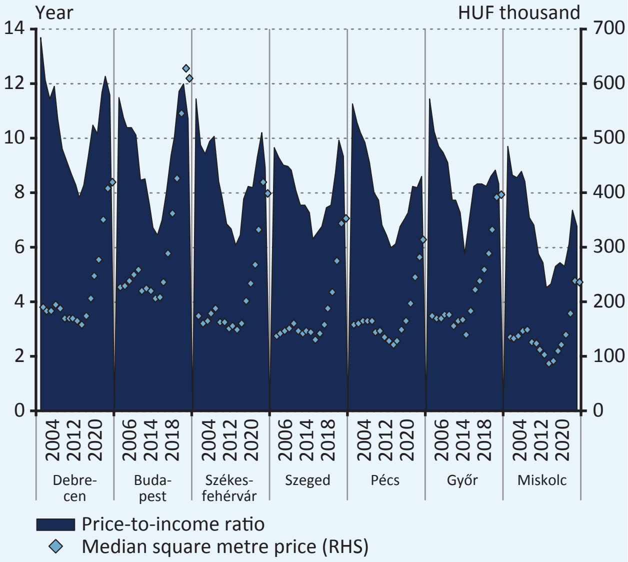
Source: Eurostat, numbeo.com

2.5 AFFORDABILITY OF A HOME PURCHASE IS SIGNIFICANTLY IMPROVED BY HOUSING BENEFITS

Thanks to the decline in average property prices, the position of Budapest improved in Europe in terms of housing affordability. One year ago, Budapest was the fourth least affordable capital in Europe, but by 2021 Q1 the position of the Hungarian capital had improved by two places. Last March, buying a 75-square metre residential property in the Hungarian capital required 17 years of national average income, while this year this number was 15.5 years, thanks in equal parts to falling property prices and rising incomes (Chart 19). Of the European capitals, it is still the most difficult to buy property in Paris: a person with average income can buy a property of 75 square metres in the median price bracket in the capital with more than 26 years of income. In contrast to Budapest, affordability deteriorated in the capitals of the other Visegrád countries: for example, in Prague properties are almost as difficult to afford as in the French capital. The largest improvement took place in London last year, where the value of the indicator declined from 15 to 13 years.

In parallel with the fall in rents in Budapest, housing affordability improved in the rental market. In Budapest, the average rent for a typical 3-bedroom home is 73.9 per cent of the average net wage in Hungary, which at present is the eighth highest value among the European capitals (Chart 20). A year ago the value of the indicator was still 87.2 per cent, i.e. the decline in rents has substantially improved housing affordability in the Budapest rental market. A larger improvement than in Budapest was observed only in Lisbon, where the rent-to-income ratio declined by almost 15 percentage points. The capitals of the other Visegrád countries are among the less affordable cities: 109.7 per cent in Warsaw, 94.5 per cent in Bratislava and 90.0 per cent in Prague. We obtain a similar picture of housing affordability when examining the disposable income at purchasing power parity remaining with the respective tenant after paying the typical rent for a three-bedroom flat from an average wage. In Budapest, Prague and Bratislava, the tenant's remaining disposable income is EUR 363, EUR 145 and EUR 60, respectively, while in Warsaw the income is not sufficient to cover the full rent. By contrast, in the capitals of Germany, Austria and Norway, this amount is over EUR 1,300.

Chart 21
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.

Source: HCSO, MNB

In 2020, housing affordability improved in most Hungarian cities. At the end of 2020, the ratio of house prices to average net incomes was the highest in Budapest and Debrecen, where buying a 75-square metre home at the median price required almost 12 years of local average income (Chart 21). Among the regional centres in the country, housing affordability is the highest in Miskolc: a 75-square metre home in the median price bracket ca n be bought with less than 7 years of average income (which is lower than the national level). Despite the decline in median square meter prices last year, the increase in the value of the indicator has been the most dynamic in Budapest in recent years, where at the end of 2020 an additional 4 years of average income was required to buy a typical home compared to 2013. In 2020, as a combined result of the property market and income trends, with the exception of Pécs, the value of the indicator declined in all regional centres of Hungary compared to 2019. In addition to the foregoing, the housing benefits also substantially improve housing affordability (for more details, see Box 2).

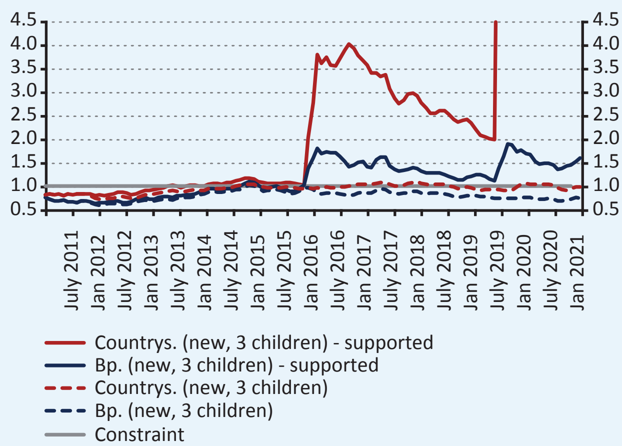
Box 2
Impact of the housing benefits and family allowances on housing affordability

In this Box, we present the advanced version of the MNB's Housing Affordability Index (HAI), which – in addition to changes in house prices by region and property type, and developments in income and interest rates on loans – also takes into consideration the impact of the family support allowances and housing benefits announced last year, when measuring housing affordability.

What does the HAI show?

The housing affordability index (HAI) shows the number of times the income of a household with two average earnings covers the income required for the financed purchase of a flat of median price level.[6] In developing the index, we took into consideration the impact of the family support allowances and housing benefits announced in recent years,[7] and thus the HAI also facilitates the analysis of the impacts of housing

Housing affordability index in the countryside and in Budapest in the case of a family with 3 children and a new property



Source: NTCA, MNB

[6] The size of the property increases in parallel with the number of children, to show a more realistic flat size requirement for larger families and to adjust it to the access conditions of the HPS. The size of the flat is 45 m2 when there is no child, 55 m2 for families with 1 child, 65 m2 for families with 2 children and 75 m2 for families with 3 children.

[7] Allowances taken into consideration: Home Purchase Subsidy for Families (HPS), Prenatal Baby Support Loan, HPS loan, reimbursement of 5-per cent VAT on housing, exemption from duty, family tax allowance, home construction subsidy (social policy allowance)

policy measures on housing affordability. If the value of the indicator is over 1, the family is able to buy a home on credit without overstretching its liquidity. However, the further the index is below 1, the more a purchase represents a significant risk and financial burden for the family.

Different impact of the allowances on properties in the countryside and in the capital

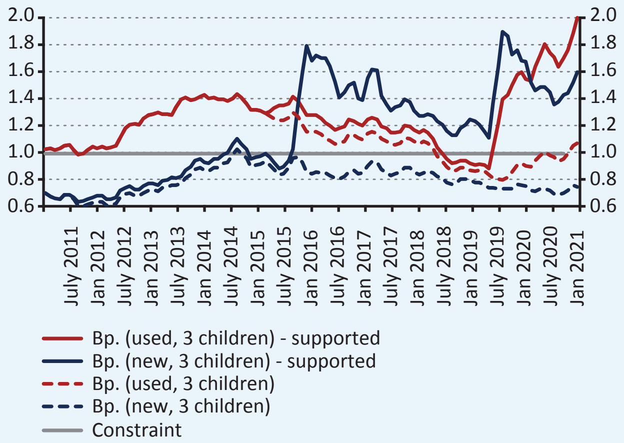
As regards the underlying trends ignoring the subsidies (continuous lines on the charts), it is clear that in Budapest the affordability of a home purchase on credit has been deteriorating since early 2015. In the capital this is attributable to the dynamic growth in house prices observed in recent years, since in the same period the other two affordability factors – i.e. incomes and interest rates on loans – developed favourably for borrowers. In the countryside, the rise in incomes kept up with the increase in house prices, which was less pronounced than in the capital, and thus on average affordability in these settlements did not deteriorate in the same period.

When the housing benefits are also taken into consideration, it can be generally stated that housing affordability both in the capital and the countryside has improved significantly recently. The first uptick in affordability is linked to the expansion of the HPS in January 2016. After introduction of the measure, the amount of loan necessary to buy a new home fell by 20 per cent for families in the countryside with two children and by 70 per cent for families with three children. In the capital, due to the higher house prices, housing affordability increased substantially only for families with three children. In their case, when drawing down the HPS of HUF 10 million, the loan amount necessary for a purchase fell by more than 30 per cent. Nevertheless, the maximum amount of the subsidy is only available for the purchase of new homes, which on average accounts for merely 12 per cent of all transactions since 2016, and thus the highest subsidy amounts only impact a narrower portion of the housing market. The second significant improvement in affordability can be linked to the introduction of the Prenatal Baby Support Loan in July 2019. Together with the maximum amount of the prenatal baby support loans, the HPS almost fully covers the purchase of a new 75-square meter home for married couples with three children in the countryside, but even in the capital the loan amount necessary for the transaction also fell by almost 40 per cent. Moreover, as a general purpose loan, the prenatal baby support loan can – subject to certain limitations – be used as the equity contribution, for the purchase of both new and used homes,[8] and thus it affected a broader range of society.

Different impact of the allowances on used and new properties

A regards new and used properties of identical size, we found that until 2016 the affordability of new property in the capital was much worse due to the higher prices than that of used properties. However, after the HPS took effect this trend turned around, and with three children it has already become easier to buy a new home. This is attributable to the fact that upon the purchase of new housing these families are eligible for the non-refundable HPS in an amount which is HUF 7.8 million higher than upon purchasing used property. The improvement in affordability was even more spectacular in the case of new properties in the countryside. The prenatal baby support loan improved the affordability of both property types to a similar degree. However, from the end of 2019, due

Housing affordability index in Budapest in the case of a family with 3 children and a new and used property



Source: NTCA, MNB

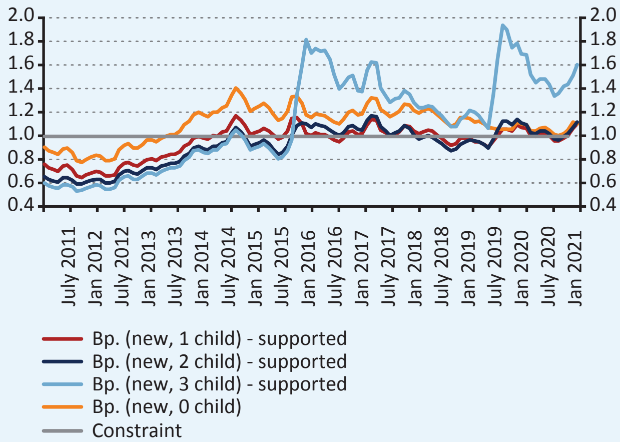
[8] Within 90 days from the application 75 per cent, while after 90 days the total amount of the prenatal baby support loan may be used as an equity contribution.

to the fall in the price of used homes the gap between the affordability of new and used properties initially started to decrease, and by early 2020 it turned to the benefit of used homes.

Different impact of the allowances on families with different numbers of children

Based on the example of families with different numbers of children, it is clear that the housing affordability of families with three children improved to the largest degree after the various types of subsidies' entry into force, and affordability for them is now also substantially better compared to those with fewer children. This is partly attributable to the fact that the amount of the HPS increases in parallel with the rise in the number of children and jumps sharply higher for three children. On the other hand, the prenatal baby support loan essentially becomes a non-refundable subsidy when committing to having three children.[9] Furthermore, we found that in the period after entry into force of the HPS it was less affordable for families with one or two children to buy the necessary property of a larger size than for those with no children, despite the fact that the allowances taken into consideration do not apply to households without children. This was because the subsidy amount available to families with one or two children was less capable of offsetting the higher property price resulting from required larger size of the property. Connected to the introduction of the prenatal baby support loan, the position of families with one or two children already improved in relative terms as well.

Housing affordability index on in Budapest in the case of families with different number of children and a new property



Source: NTCA, MNB

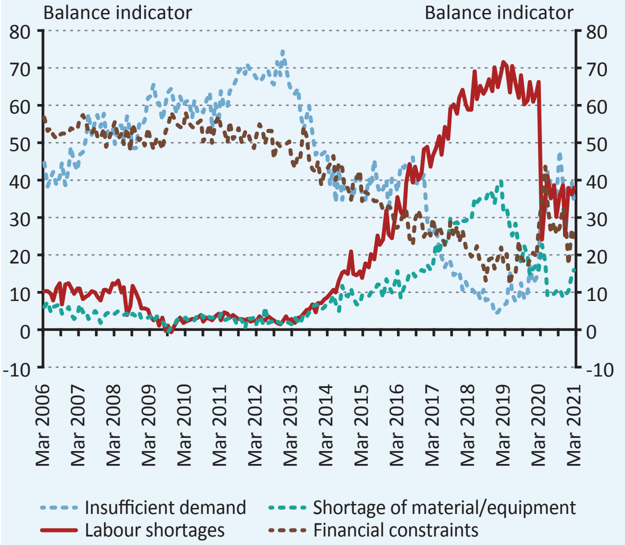
All in all, we found that the family support and first-time homeowner allowances introduced in recent years had a tangible positive effect on housing affordability for eligible families, both in the countryside and in the capital. However, due to the rising property prices resulting from the inadequate supply-side adjustment and the high demand in recent years, the impact of the subsidy amounts, defined in nominal terms, of the HPS and the prenatal baby support loans decreased. Moreover, the rise in house prices reduced affordability for those potential buyers who did not commit to having children. The allowances effective from January 2021 (VAT reimbursement and exemption from duty) provide additional significant easing for families buying a home using the HPS. Although at the current price levels the subsidy amounts were unable to raise affordability at the beginning of the year to such a spectacular degree compared to the previous measures, in addition to the high subsidies granted to families with three children, they facilitate house purchases for a much wider range of families, including those buying used homes.

[9] The prenatal baby support loan becomes a non-refundable subsidy if the married couple takes out the loan during the pregnancy, followed by the second child within three years and the third one within the next three years.

3 Supply of new homes

In 2020, the number of new completions grew substantially, rising by 33.5 per cent compared to 2019, with the largest growth, 52.3 per cent, registered in new completions by natural persons in the countryside. The significant growth may have been also attributable to the timing effect linked to the energy regulations. New construction was concentrated in certain regions: large numbers of home constructions were registered in Győr-Moson-Sopron county, in District XI of Budapest, in the agglomeration settlements of Budapest, in Kecskemét, Szeged, Debrecen, Nyíregyháza and around Lake Balaton. However, the number of residential construction permits issued fell significantly (by 35.8 per cent) in 2020. The decline in Budapest was even larger, i.e. 48 per cent, which was mostly attributable to the wait-and-see position related to the brownfield area regulation and the raising of the VAT rate back to the its previous level at the end of 2019. On the other hand, the reintroduction of the preferential VAT rate on new homes suggests that housing development activity will be buoyant in the coming years. The favourable effect of the lower VAT on housing was already tangible in Budapest in 2021 Q1, as housing development activity increased by 8 per cent quarter-on-quarter. As a result of the general government's demand stimulating measures and the limited supply capacities, the shortage of labour, material and equipment may curb construction output once again. Furthermore, the experts of the Housing and Real Estate Market Advisory Board (hereinafter: LITT) emphasised that the qualification of the construction labour force is inadequate.

Chart 22
Constraints on construction output



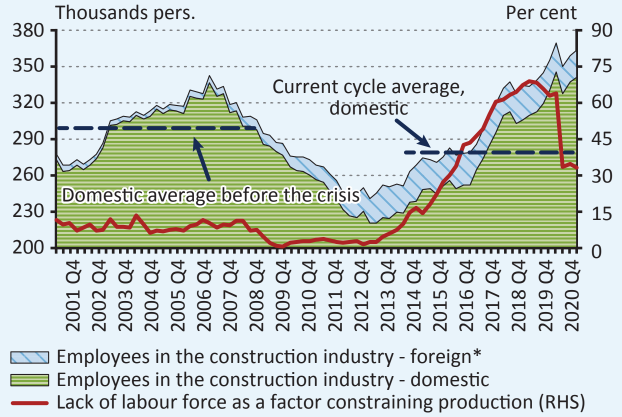
Note: Seasonally adjusted series.
Source: European Commission

3.1 CONSTRUCTION SUPPLY CONSTRAINTS EASED IN 2020, BUT LOOKING AHEAD THE SHORTAGE OF SKILLED LABOUR MAY ONCE AGAIN BECOME A PROBLEM

Prior to the coronavirus crisis, construction was dominated by supply constraints. However, output has been recently curbed by inadequate demand. In a survey published by the European Commission, the respondent construction firms mostly regarded the labour force as a bottleneck, which – as a result of the economic impacts of the coronavirus – has eased somewhat. In parallel with this, financial constraints, the shortage of material and equipment and inadequate demand have become relatively more significant (Chart 22). Owing to the pandemic, it became more difficult to procure imported building materials due to interruptions in transportation. Demand conditions worsened in 2020: along with the coronavirus, the increase in the VAT rate on housing back to its previous level at the end of 2019 also played a role in this development. In the past quarter, the factors hindering production remained essentially unchanged, but in line with stronger demand, supply constraints will once again come to the forefront.

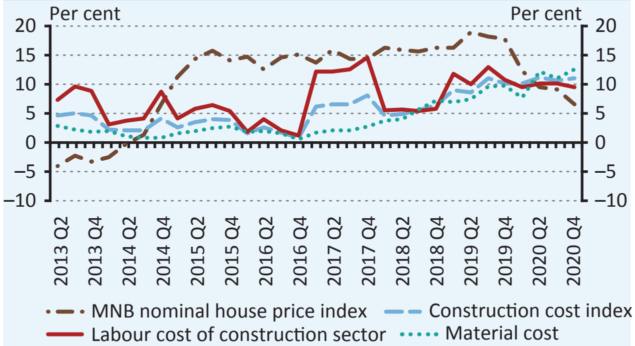
The number of construction employees exceeds the peak recorded prior to the 2008 crisis. After the 2008–2009 global financial crisis, many construction workers went to work abroad, which in recent years has contributed to the increasing scarcity of capacity on the labour market for the construction sector. In 2020, the number of construction workers employed abroad decreased compared to previous

Chart 23
Number of employees in the construction industry



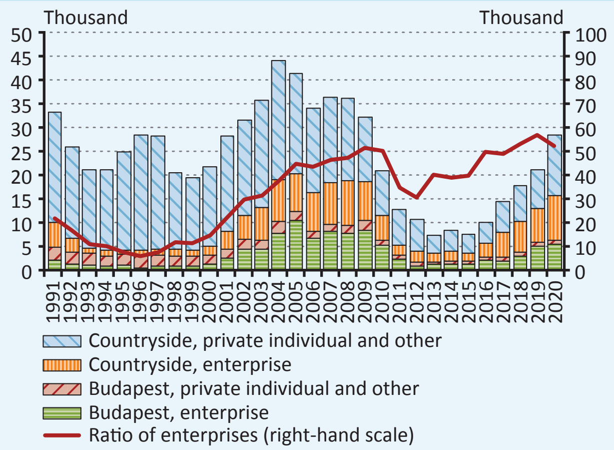
*Note: * Based on employees with households in Hungary.*
Source: HCSO, MNB, European Commission

Chart 24
Annual change in home construction costs and nominal house prices



Source: HCSO

Chart 25
Number of new dwellings completed, by location and builder



Source: HCSO

year, while the number of construction workers in Hungary rose (Chart 23). One favourable development is that some skilled construction workers returned from abroad, as this will ease the expected labour shortage and increase output capacities. On the other hand, the experts of LITT highlighted the low qualification of the sector's workers (see Box 3).

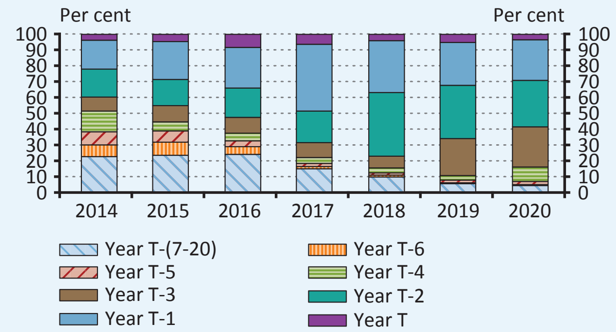
According to HCSO data, home construction costs rose by 11 per cent in 2020. In the latter half of the year, the annual growth rate in house prices decelerated further. The growth rate of construction labour costs decreased moderately, but still amounted to 9.6 per cent in 2020 Q4. On the other hand, the rise in construction material costs accelerated to 12.8 per cent in 2020 (Chart 24). The general government measures of housing benefits boost demand, which – together with the supply problems – may generate a further increase in material costs.

3.2 THE NUMBER OF NEW HOME COMPLETIONS ROSE SUBSTANTIALLY IN 2020

In 2020, the number of new completions exceeded that of previous year by one third. In 2020, 28,200 new homes were completed in Hungary, representing strong growth of 34 per cent compared to 2019 (Chart 25). The number of completed homes in the first, second and fourth quarters of 2020 exceeded the year-on-year number by 30–40 per cent and in the third quarter by 9 per cent. The rise in new completions in 2020 was also due to a one-off effect, as the regulation tightening the occupancy conditions in terms of energy efficiency[10] was to have initially entered into force on 1 January 2021. The tightened energy requirements permit only the occupancy of nearly zero-energy buildings or higher classification. Accordingly, developers and private individuals made efforts to occupy the buildings constructed under the previous requirements before this deadline. The number of completed homes rose the most, increasing by 43 per cent, outside Budapest, and within that the rise in the number of homes the occupancy of which was applied for by private individuals was 52 per cent. The number of homes built by companies accounted for 52 per cent of completions in 2020, which falls short of the 2019 figure by 5 percentage points, but this can still be deemed high compared to the previous 20–30 years.

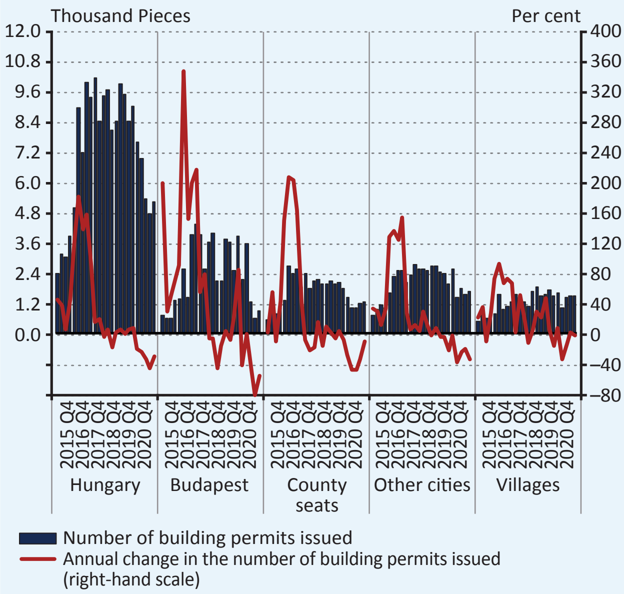
[10] According to the provisions of Decree No. 7/2006. (V. 24.) TNM, in force until end-December 2020, after 31 December 2020, all newly built buildings to be occupied should comply with the requirements set out Annex 6 to the Decree, i.e. the nearly zero energy consumption. This requirement was supplemented with effect from 30 December 2020, according to which when based on the architectural-technical documentation the energy consumption of the building is not nearly zero or better, and it is occupied after 31 December 2020, the requirements set out in Annex 6 to the TNM Decree must be complied with only when the building is occupied after 30 June 2021. This deadline was repeatedly modified on 11 March 2021 to 30 June 2022, after which occupancy permit will be issued in Hungary only for nearly zero-energy buildings.

Chart 26
Distribution of the dwellings completed according to the year of the original building permit



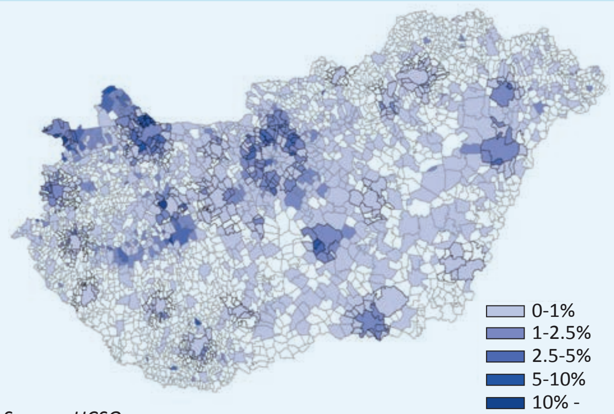
Note: Annual number of occupancy permits by the year of the first construction permit issued for the flats.
Source: HCSO

Chart 27
Number of dwellings included in issued residential building permits and annual growth rate by type of settlement



Source: HCSO

Chart 28
Renewal rate of the housing stock in 2020 by settlement



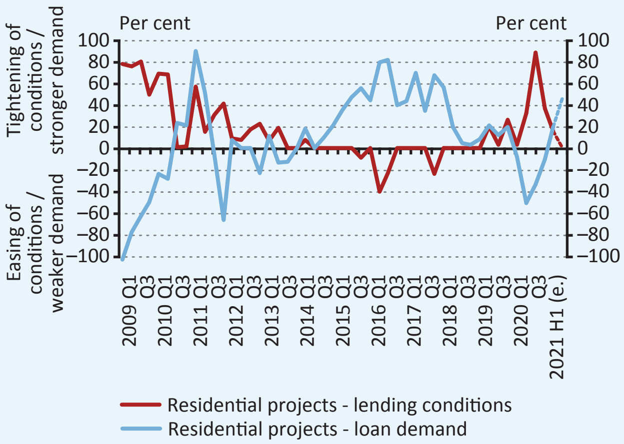
Source: HCSO

Over the past two years, the ratio of homes with a construction permit issued at least 3 years ago rose within new completions. At the beginning of the house price increase and building cycle, in 2014 and 2015, homes with a construction permit issued at least 3 years earlier accounted for 55–60 per cent of annual completions (Chart 26). During these years the over 20-per cent ratio of homes authorised 7 years ago or earlier implies that these included constructions that were stopped or postponed due to the 2008 crisis and then – in parallel with the pick-up in demand – rapidly restarted. The number of these developments fell year by year, and in 2018 already less than one quarter of housing completions had an initial construction permit issued at least 3 years previously. In 2019 and 2020, the ratio of homes authorised further back increased again, reaching 34 and 41 per cent, respectively. The difference compared to the start of the cycle is that in the past two years it was the ratio of completions with a construction permit issued 3 year before that rose significantly, which may be attributable to the delays resulting from the construction capacity shortage.

In 2020, in terms of construction permits issued, the number of homes decreased the least in the villages. In 2020, the number of homes included in construction permits issued fell by 36 per cent to 22,600 in Hungary, which was mostly caused by the raising of VAT on new home sales to 27 per cent at the beginning of 2020 and the absence of the detailed rules applicable to brownfield developments (Chart 27). The largest decline, 48 per cent, was registered in the capital, while the construction permits issued in towns of county rank and in other towns included 39 and 32 per cent, respectively, fewer homes compared to 2019. The smallest, 14 per cent, decline was observed in the villages. Looking ahead, as a result of the housing benefits effective from 2021, the number of issued construction permits is expected to increase in all settlement types.

New residential construction is concentrated in certain regions. The number of new homes completed in Hungary in 2020 amount to 0.63 per cent of the existing stock of dwellings. Although the renewal rate measured in this manner rose from 0.47 per cent in 2019, the renewal rate of Hungary's housing stock is the lowest compared to the countries of the Central and Eastern European region. Examining the regional composition of renewal, we found that the construction of new homes tends to be concentrated in territories with more favourable economic prospects and conditions for tourism, while in many settlements no new residential property was built at all in 2020 (Chart 28). A high renewal rate can be measured in Győr, Sopron, at the popular resorts in the vicinity of Lake Balaton, in the agglomeration of Budapest, in District XI of Budapest in Kecskemét, Szeged Debrecen and Nyíregyháza.

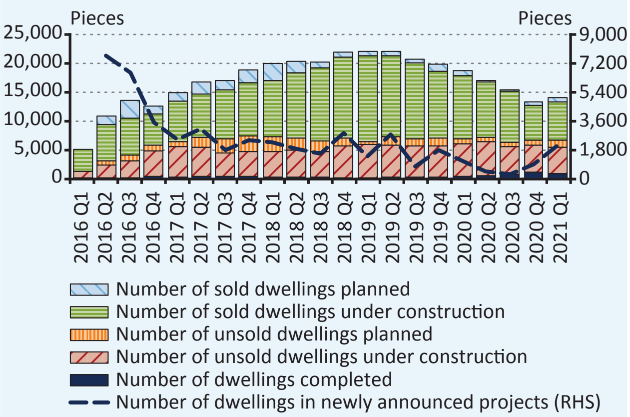
Chart 29
Changes in credit conditions of housing projects and changes in demand



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

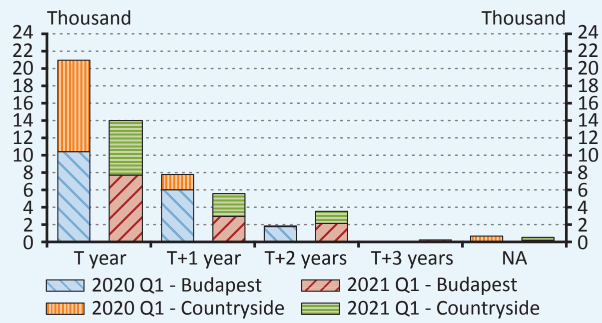
Chart 30
Availability of new homes under development in Budapest and volume of new announcements



Note: Based on projects with at least 4 new dwellings in Budapest.

Source: ELTINGA – Housing Report

Chart 31
Distribution of new homes under sale, construction or planning in Budapest and in the countryside by the expected completion date relative to the current year



Note: Based on new housing projects for at least 4 dwellings in Budapest, and at least 10 dwellings in the countryside. Based on 2020 and 2021 Q1 data.

Source: ELTINGA – Housing Report

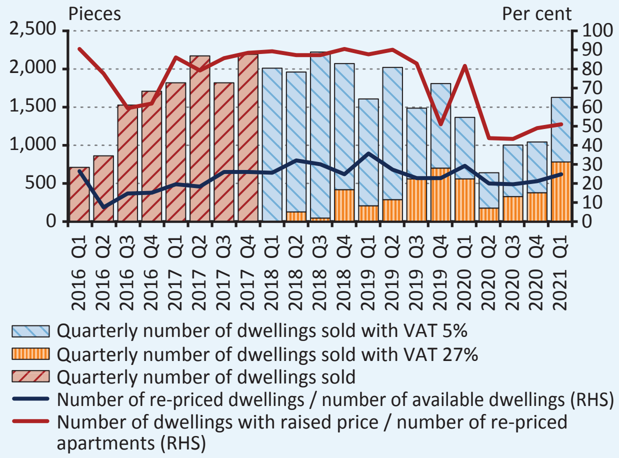
3.3 NEW CONDOMINIUM DEVELOPMENT ACTIVITY GREW AGAIN IN EARLY 2021

Banks already perceived a recovery in demand for residential property project financing in late 2020. Based on the responses in the Lending Survey, banks continued to tighten the credit standard applicable to housing project financing in 2020 H2 as well, albeit an increasingly smaller ratio of them did so. In net terms, 16 per cent of banks, tightened credit conditions in the fourth quarter, citing sector-specific problems, but over a horizon of six months they plan no changes in the conditions of access to credit in this segment (Chart 29). In 2020 Q3, in net terms, 10 per cent of banks reported declining credit demand, which – in their opinion – was attributable to the deterioration in the willingness to invest in property as well as to the unfavourable situation on the commercial property market. However, in the fourth quarter, in net terms, 19 per cent of them already perceived a recovery. Reintroduction of the preferential VAT rate from 2021 may lend additional momentum to housing projects. Accordingly, 45 per cent of the respondent institutions, in net terms, expect a further pick-up in credit demand related to housing projects in 2021 H1 as well.

The reintroduced 5-per cent VAT on new housing and the family support measures stimulated housing development activity. In Budapest, the decline in the number of homes under development (construction or planning) and already for sale stopped in 2021 Q1: from 12,200 homes registered at end-2020, it rose by 8 per cent to 13,200 by the first quarter of 2021 (Chart 30). Within these developments, the volume of homes in the design phase, when construction has not yet started increased by 45 per cent. In 2021 Q1, the number of homes within newly announced projects exceeded 2,000 for the first time in the previous one and a half years. 2,062 new homes were announced for sale, already reaching almost three quarters of the average quarterly number of new homes announced in the period 2016–2019. As regards the size of the developments, in the composition of projects the number of homes in projects with a maximum of 50 flats continued to fall moderately (by 3 per cent) even in 2021 Q1. On the other hand, the number of homes in projects with over 50 flats already rose by 11 per cent. The rise in the number of homes in newly launched projects was attributable to the housing benefits (in particular reintroduction of the preferential VAT on new homes) effective from 2021.

Between the first quarter of 2020 and 2021 the number of new home completions planned for the year declined by one third. Excluding housing developments with fewer than 10 dwellings in the countryside and 4 dwellings

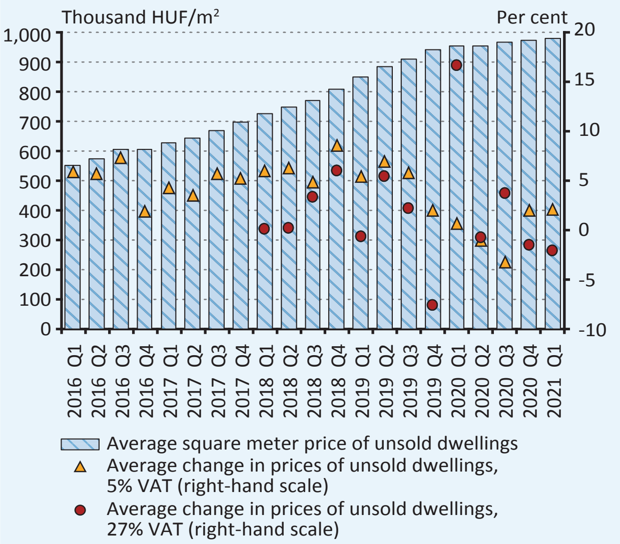
Chart 32
Number of new homes sold in Budapest, and ratio of repricing within the advertised new homes



Note: Based on projects for more than 4 new dwellings in Budapest. From 2021 break down based on VAT rates valid untill the end of 2020.

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

Chart 33
Average square metre price of the new home supply in Budapest and price changes by VAT rate



Note: Based on vacant, unsold homes in projects with more than 4 new dwellings. From 2021 break down based on VAT rates valid untill the end of 2020.

Source: ELTINGA – Housing Report

in Budapest, investors' plans in 2021 Q1 called for the completion of a total of 14,100 new condominium flats in 2021. Based on these plans, 21 per cent more homes are likely to be completed in Budapest than in other parts of the country together (Chart 31). This volume falls short of the completions planned for 2020 in 2020 Q1 by 33 per cent. Based on construction project data, developers plan to complete only 5,600 homes in 2022. In 2020, the number of delayed housing developments fell continuously, owing to the weaker activity and thus to the better availability of construction capacities. However, in parallel with the rise in the number of home constructions commenced, the number of homes in delayed projects also increased in 2021 Q1 and this number may continue to rise for the rest of the year as additional housing projects are launched.

The family allowances in force from 2021 already had a tangible impact on the new home market in Budapest in the first quarter. In 2020, a total of 4,000 new homes were sold in Budapest, falling short of the 6,900 homes sold in 2019 by 42 per cent. As a result of the measure taken to contain the spread of the coronavirus, the number of new homes sold in 2020 Q2 declined by 69 per cent in annual terms (Chart 32). During the summer months, the number of transactions rose once again, but the high number of transactions usually characterising the final quarter did not materialise in 2020, due to the wait-and-see effect of the housing benefits announced that became effective from 2021. In 2021 Q1, 1,600 new homes were sold in Budapest, representing a decline of 19 per cent on an annual basis. Homes that were subject to VAT at 5 per cent in 2020 as well accounted for 52 per cent of the residential properties sold during the quarter, while 48 per cent of them were homes that may be sold at 27 per cent VAT until the end of 2020, but from 2021 once again at a preferential VAT rate. Owing to the VAT cut, demand for homes previously subject to VAT at 27 per cent also rose: in 2021 Q1, 800 homes were sold, representing an increase of 40 per cent year-on-year. In 2021 Q1, one quarter of the unsold new home supply was repriced, with 51 per cent of the homes becoming more expensive, which can be deemed low compared to previous years.

As a result of the VAT cut effective from the start of 2021, the price of homes previously subject to 27-per cent VAT declined moderately on average. In 2021 Q1, the average square metre price of unsold new homes in Budapest rose to HUF 972,000, which corresponds to a rise of 2.7 per cent in an annual comparison (Chart 33). On average, the prices of new homes in Budapest repriced in 2020 Q4 and 2021 Q1 increased slightly, rising 0.6 per cent in the fourth quarter and 0.2 per cent in 2021 Q1. Prices of homes available for sale until the end of 2020 at 27-per cent VAT already declined in 2020 Q4, falling by 1.6 per cent on average, followed by an additional decline of 2.1 per cent in 2021 Q1. On average, prices of homes that were eligible for VAT at 5 per cent even before the general reintroduction of the preferential VAT on housing in 2021 rose by 1.8 and 1.9 per cent in 2020 Q4 and 2021 Q1, respectively.

Box 3
Summary of the session of the housing market section of the Real Estate Market Advisory Board on 15 April 2021

First-time home-buying

Owing to the measures in recent years aimed at first-time home-buying, since 2015, 265,000 families with children benefited from subsidies for realising their housing objectives. On the whole, over the past 6 years, subsidies in the amount of HUF 2,000 billion (HUF 1,100 billion of home purchase subsidy and HUF 900 billion of prenatal baby support) supported families in buying a home. From 2021 this amount will be further increased by the subsidies and allowances available under the Housing Action Plan, the elements of which include: preferential VAT rate of 5 per cent on newly built homes, VAT exempt purchase of new homes when relying on the HPS, VAT reimbursement for self-financed constructions, home improvement subsidy, home improvement loan, exemption of the purchase of new home from duty when drawing on the HPS, support for multigenerational new homes (loft conversion with the HPS) and the reduction of notary fees. In connection with the measures, the amendment of the government decree aimed at the expansion and fine-tuning of the housing action plan was adopted and promulgated in mid-April 2021.

The housing benefits were also welcomed by construction experts, developers and real estate agents. One of the members emphasised that 90 per cent of housing market transactions are aimed at the purchase of a used home. New homes only accounted for 20 per cent of turnover even in the 2000s when 40,000 new home were built annually; accordingly, support for used homes is of the utmost importance. Furthermore, it is also important to revise the subsidy amounts, since the rise in house prices in recent years has reduced the contribution of previously allocated subsidies to affordability.

Housing market trends

According to the members, the year started with strong momentum. In 2021 Q1, demand for homes was solid. Demand rose by one third in year-on-year terms, to reach the level registered in 2019 Q1, which was a particularly robust period. House price appreciation decelerated in 2020, supporting continued affordability. Prices typically stagnated. On the other hand, between April 2020 and 2021 a decrease in prices was observed in seven districts in Budapest. These are the inner districts, which used to be characterised by strong investment activity, which declined as tourists disappeared. Interest in new residential properties tripled, with particularly robust growth in demand for family houses. In addition to demand, growth in the supply of newly built residential properties was also robust (56 per cent). As regards the near future, LITT members had mixed expectations: experts anticipated continued high demand in the second quarter, which may be followed by a weaker third quarter – resulting from higher vaccination rates and the summer period with a weaker focus on real estate – and then by renewed strengthening in the fourth quarter. One of the experts emphasised that he expected the number of transactions to rise in the coming years as a result of the pandemic, which may be attributable – among other things – to the expansion of the function of homes due to their changed use (working from home).

Housing developments

As a result of the rise in demand for new homes, the first quarter is a period of moderate price increase, while in April 2021 a rise in construction costs was already observed. In addition, supply once again is lagging behind demand, which may accelerate the increase in prices. Looking ahead, the commencement of investments drawing on government and EU funds will put further pressure on prices. On the whole, experts anticipate more significant price increases for new homes in 2021 H2, which will be more typical for newly launched projects.

The construction of a condominium takes around 3–4 years from the initial concept through to completion, as a result of which new home supply is characterised by a high level of inertia, as it is unable to flexibly respond to abrupt rises or falls in demand. The former 3:1 ratio of family home and condominium constructions has shifted to 1:1 since 2015, and thus experts believe that more family houses should be built. The deadline to obtain the construction permits by the end of 2022 to be eligible for the 5-per cent VAT does not support long-term planning. Property developers also pointed out the unfavourable effects in respect of the once again temporary effect of the 5-per cent VAT applicable to sales of new homes. The rush for construction permits has started, which is likely to last until the end of 2021, as the preparatory period until obtaining a permit takes at least one year for condominium developments. A condominium project idea arising after the end of 2021 is unlikely to obtain a construction permit by the end of 2022. Experts believe that project ideas arising and preparatory works performed in 2021 may succeed in obtaining construction permits for about 35,000 homes until the end of 2022. These homes will have to be completed by the end of 2026, which – assuming steady distribution – will facilitate the completion of 7,000 homes annually at the 5-per cent VAT rate. This is an extremely low volume, i.e. due to its temporary nature the preferential VAT will not be able to significantly boost the supply of new homes. Furthermore, when the limited period comes to an end, the projects constructed at the 5-per cent VAT rate and the brownfield allowances will not support a pick-up on the market with a 27-per cent VAT rate. Experts are of the opinion that the market of homes with 5-per cent and 27-per cent VAT cannot exist in parallel in the long run. Previously, projects were launched with 27-per cent VAT in parallel with those subject to the 5-per cent rate, as everybody expected a gradual phase-out of the latter. Market participants propose that the VAT rate on new homes should be reduced permanently to 5 per cent, or to 5+4 per cent, as proposed earlier.

Property developers want to buy the plots to be developed in the next 5–6 years now, selecting from a scarce supply of plots, which will raise plot prices. The higher plot prices will be integrated in the house prices, and in addition to home construction, those participating in the home improvement programme will also compete for capacities, which will also raise the costs of materials and labour. Accordingly, some experts believe that the 5-per cent VAT applicable only to for short period may increase prices in the housing market. Nevertheless, setting out from the principle of countercyclical economic stimulus, some believed that the temporary nature of the preferential VAT gives concentrated and significant impetus to the economy through the housing market and construction, which currently has more favourable effect than a 5-per cent VAT rate valid over the long run.

Market participants urged the development and publication of the detailed rules of brownfield developments. At the same time, they emphasise that with the 5-per cent preferential VAT on housing these developments do not enjoy additional support. Accordingly, it was proposed that the 5-per cent VAT should also be reclaimable in the case of brownfield projects.

Financing:

Owing to the demand stimulating effects of the first-time home-buying measures, last year had the smallest impact on the bank financing of housing developments. Moreover, as a result of the temporary reinstatement of the 5-per cent VAT on housing, demand and supply may be balanced in the coming years, which is also a positive development on the financing side. In connection with the housing project financing recommendation of the MNB issued at the beginning of 2021, one of the LITT members noted that on the whole most institutions had followed the principles outlined in the recommendation before as well. On the other hand, it was mentioned that in the case of developments without bank financing it would be extremely important to implement regulations to protect the sums paid by the buyers. Developers emphasised that FGS Go! offers favourable conditions for financing housing projects.

The effective date of the regulation tightening the energy efficiency requirements of buildings has been postponed to mid-2022, which – for the time being – hinders the penetration of green credit products, since the energy efficiency classification of condominiums under construction does not satisfy the “BB” category complying with the nearly zero-energy consumption requirement. Experts believe that the penetration of the green approach could be also facilitated by the differentiation of housing benefits based on energy efficiency.

Construction

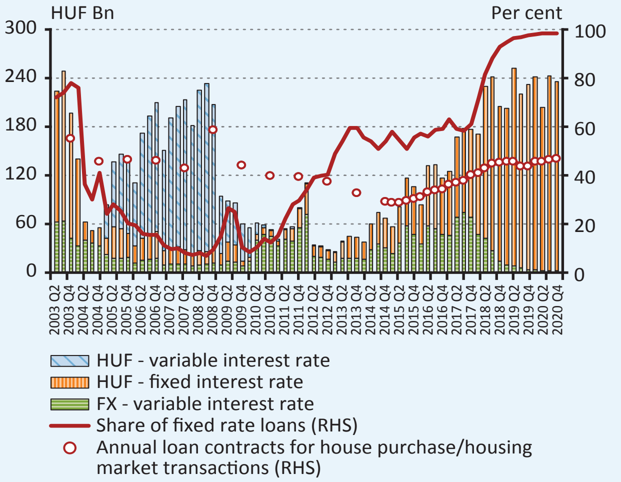
Construction experts welcomed the housing benefit measures. However, they also emphasised the importance of balancing demand and supply. Major price increase may be expected in construction materials, which could be curbed by the general government by developing alternative sources of procurement. In addition to the materials, construction labour capacity is also an important element to support supply. In connection with this it was mentioned that it will be necessary to involve non-EU citizen skilled workers and engineers in order to be able to fulfil the anticipated construction orders, which could be facilitated by the fast and flexible issuance of work permits. In addition, expansion of the skilled labour force could be supported by the continuation of the “Come Home Programme” aimed at Hungarians working abroad.

At present, the qualification of the construction labour force is inadequate. Compared to 2013–2014, marking the bottom of the property market cycle, the construction industry now employs 110,000 more persons. However, a large part of this increase consists employees hired from public employment, whose qualification is often below that of semi-skilled workers. Due to this, construction players must take on tertiary and further education duties to be able to keep abreast with the increasing volume of orders and the progress in construction technology.

4 Lending for housing and housing benefits

The volume of loans disbursed by credit institutions in 2020 remained at the level of previous year, while the ratio of purchases on credit rose within housing transactions. For the pre-financing of the home improvement support, which was launched from January 2021, banks disbursed HUF 2.3 billion until March. Average loan amounts rose last year: at the end of 2020, the amount requested for the construction and purchase of new homes and for the purchase of used homes was HUF 16 million and HUF 12 million on average, respectively. Borrowers' increasing financial awareness is implied by the fact that in the fourth quarter more than three quarters of new disbursements were housing loans with interest fixed for at least 10 year or until maturity. A smaller part of the respondent banks in the Lending Survey eased housing loan conditions in 2020 H2, and most of them anticipate recovering credit demand in 2021 H1. In parallel with the rise in property prices observed in past years, the average loan-to-value ratio also increased both for new and used homes, particularly in the capital. Nevertheless, there is still no sign of over-indebtedness and the average LTV ratio of mortgage loans taken out for properties in Budapest is lower than the national average. Following the onset of the pandemic, the largest decline was observed in the number and volume of contracts concluded for the construction and purchase of new homes under the Home Purchase Subsidy for Families, while demand for the Rural HPS remained robust until the end of 2020. The amount of applications received until the end of March 2021 under the Home Improvement subsidy scheme exceeds HUF 3.1 million, 48 per cent of which is connected to work that also improves energy efficiency.

Chart 34
Volume of new housing loans by interest rate fixation and denomination



Note: Fixed rate loans indicates loans with over 1-year interest rate fixation.

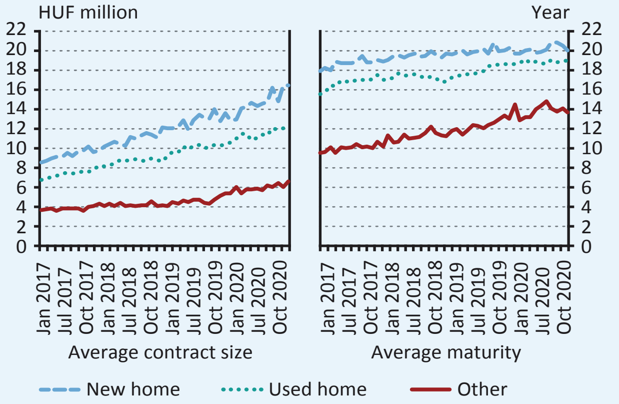
Source: MNB

4.1 DESPITE THE PANDEMIC, DISBURSEMENTS REMAIN STEADY AND CONDITIONS IN THE HOUSING LOAN MARKET ARE PRUDENT

Almost one half of home purchases involve borrowing. In 2020, credit institutions disbursed housing loans in the amount of HUF 928 billion, which essentially corresponds to the amount of disbursements from one year ago. Following the onset of the pandemic, in 2020 Q2 the volume of new loans fell short of the year-on-year figure by 19 per cent, mostly affecting loans for the construction of new homes. However, in the second half of the year, growth was observed in parallel with the easing of the restrictive measures. In 2020, the ratio of home purchases on credit rose further: while 44 per cent of housing transactions were realised with borrowing in 2019, this ratio rose to 47 per cent in 2020. The rise in the ratio of home purchase on credit presumably may have been also attributable to the fall in the ratio of house purchases for investment purposes. When also considering the prenatal baby support loans used for home purchases, in 2020 Q2 the ratio would have been 63 per cent[11] (Chart 34). The volume of loans linked to the home improvement subsidy, which was launched in January 2021, amounted to HUF 2.3 billion until March, inclusive.

[11] According to our questionnaire-based survey, 44 per cent of the prenatal baby support loans are also used for home purchases. For more details, see: Zita Fellner – Anna Marosi – Beáta Szabó (2021): A babaváró kölcsön hitelpiaci és reálgazdasági hatásai (The effects of prenatal baby support loans on the credit market and the real economy), Közgazdasági Szemle (Economic Review) Vol. 68, February 2021 (pp. 150-177). We deducted the number of those loans that were followed within half a year by drawdown of a housing loan from 44 per cent of disbursements one year after the launch of the prenatal baby support loans in July 2019.

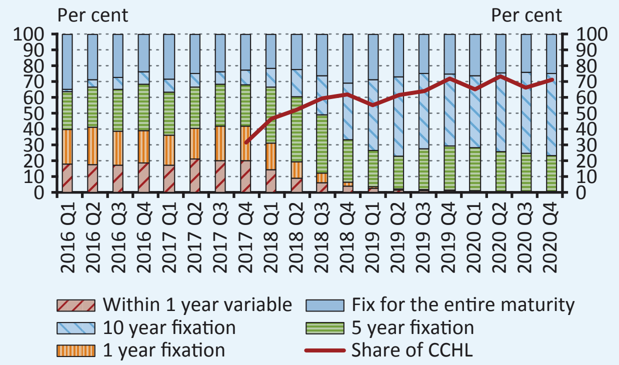
Chart 35
Average contract size and maturity of new housing loans



Note: Maturities are averages weighted by the contracted amount.

Source: MNB

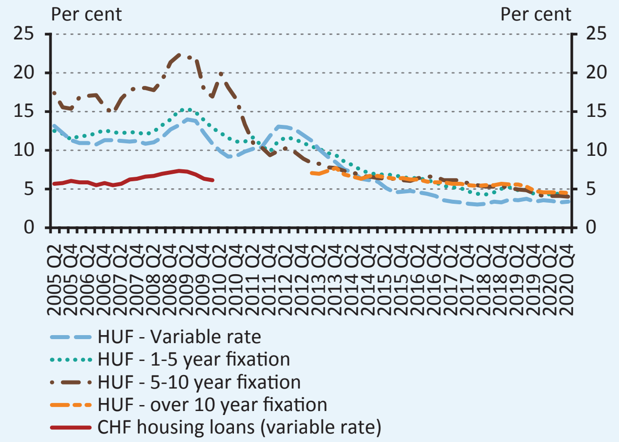
Chart 36
Distribution of housing loan disbursements by interest rate period, and the share of CCHL products



Note: Share of CCHL products compared to new issues with at least 3 years of interest rate fixation (at least 5 years since Q4 2018) excluding disbursements by building societies.

Source: Source: MNB

Chart 37
APR of new housing loans

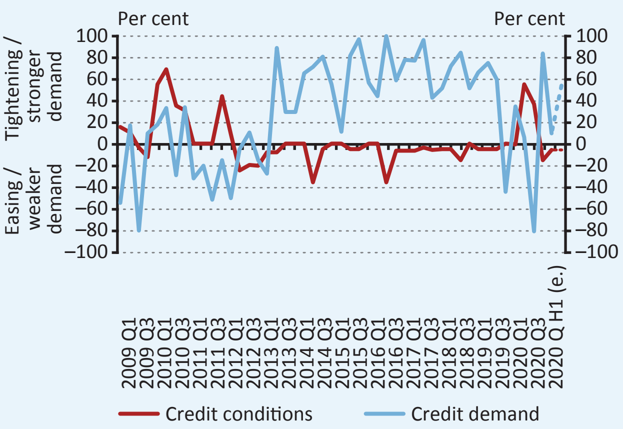


Source: MNB

The amount of housing loans rose further in 2020. In 2020, credit institutions concluded 84,700 housing loan contracts in total, which falls short of the volume registered in 2019 by 10,500. However, when considering that the Prenatal Baby Support loans also have a crowding-out effect in the housing loan market, and – according to the questionnaire-based survey – clients use 44 per cent of such loans for the purchase of homes, the number of loans taken for housing purposes may have even increased in 2020. In 2019 and 2020, households concluded 49,000 and 63,600 new Prenatal Baby Support contracts, respectively. The average loan amounts applied for the individual housing purposes rose further: in December 2020, the average loan amount requested for the construction and purchase of new housing and for the purchase of used homes was HUF 16.2 million and HUF 11.8 million, respectively, representing an annual increase of 21 and 16 per cent, respectively. A rise was also observed in other purposes, including improvement and expansion, where the rise to HUF 6.5 million at the end of the year may have also been supported by the home improvement subsidy announced last year (Chart 35). In December 2020, the median loan amount for the construction or purchase of new housing and for the purchase of used homes and for other purposes was HUF 13.5 million, HUF 10.0 million and HUF 4.0 million, respectively. Despite the rising loan amounts, average maturities did not change in 2020 on the whole: after the rise observed in summer, maturities once again shortened in autumn. Accordingly, at the end of 2020, housing loan applications involved average maturities of almost 20 years in the case of new homes and 19 years when purchasing used homes.

The interest rate risk of the disbursed housing loans is low from the borrowers' perspective. In 2020, the ratio of housing loans with longer-term interest rate fixation rose further within new disbursements. More than three quarters of the contracts concluded in the fourth quarter featured an interest rate fixed for 10 year or until maturity, which implies increasing financial awareness of households (Chart 36). Merely 23 per cent of new contracts have a 5-year interest period, while lending with interest rate variable within one year has practically ceased in new disbursements. Accordingly, the latter type of loans are also gradually decreasing in the outstanding mortgage loan portfolio, and in December 2020 their ratio was only 40 per cent. The penetration of Certified Consumer-friendly Housing Loans (CCHL) was important in ensuring that instalments are also predictable over the longer run: 71 per cent of the housing loan contracts concluded during the quarter had CCHL certification.

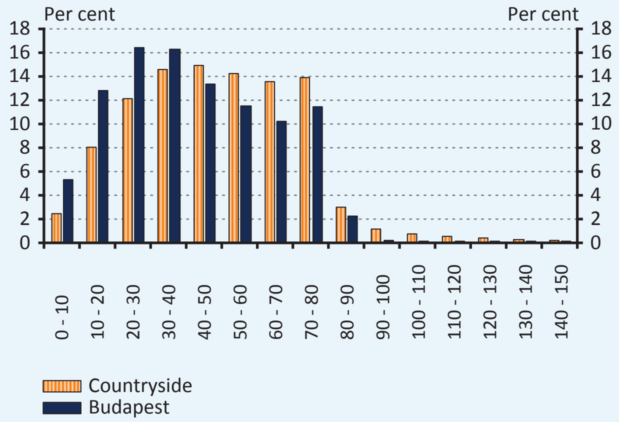
Chart 38
Changes in credit conditions and demand for housing loans



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

Chart 39
Distribution of mortgage loans outstanding at end-2020 by LTV at the time of concluding the contract



Note: Distribution based on the number of transactions.

Source: MNB

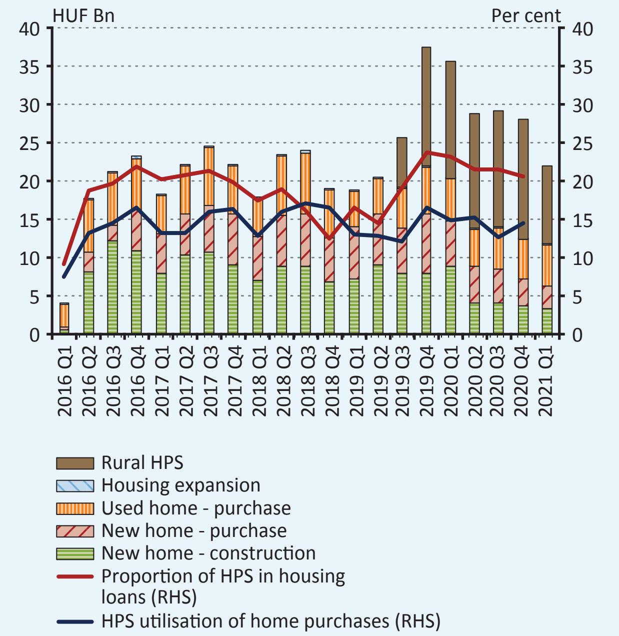
The annual percentage rate of charge on housing loans with longer interest rate fixation periods decreased further. The average percentage rate of charge on newly disbursed housing loans has not changed in an annual comparison in the case of loans with variable interest or interest rate fixation for not more than 5 years, amounting to 3.4 and 4.5 per cent, respectively, in December 2020. The average APR level of housing loans with interest rate fixation of 5–10 years stood at 4.1 per cent after an annual decline of 0.4 percentage point, while the average percentage rate of charge on loans with interest rate fixation for over 10 years declined by 0.3 percentage point to 4.5 per cent at the end of 2020 Q4 (Chart 37). For the time being, the higher funding costs appeared in narrowing spreads rather than in the average percentage rate of charge.

Banks anticipate a pick-up in demand for housing loans in 2021. Based on the responses in the Lending Survey,[12] after the tightening observed in 2020 H1, a smaller part of banks eased conditions on housing loans in the second half of the year, with most of them reporting a reduction in spreads. Easing was primarily attributable to market share objectives. Looking ahead to the next half-year, 6 per cent of banks, in net terms, plan further easing (Chart 38). After the lifting of the restrictive measures in summer, 84 per cent of banks, in net terms, reported increasing demand for housing loans in 2020 Q3. However, after the onset of the third wave of the pandemic, just 10 per cent of them observed a further pick-up in the fourth quarter. On the other hand, prospects for 2021 H1 are positive, and 54 per cent of the banks anticipated a continued recovery in credit demand, which may be also attributable to the expanded housing benefit measures.

Borrowers of mortgage loans typically had a higher equity contribution in the capital than in the countryside. When examining the mortgage loan portfolio outstanding at the end of 2020, the loan amount compared to the value of the real estate collateral is typically higher in the countryside than in Budapest. While the average loan-to-value ratio (LTV) was 40 per cent for 51 per cent of the properties purchased on credit in the capital, in the countryside this applied only to 37 per cent of purchases (Chart 39). 11 per cent of the mortgage loans taken for properties in Budapest and 14 per cent of those for properties in the countryside were close to the 80 per cent limit (between 70 and 80 per cent) prescribed by the debt cap rules. The mortgage loan contracts with an LTV over 80 per cent were concluded before the 2008 crisis. In the new lending cycle, in line with the rise in property prices, savings are to be supplemented

[12] For the detailed results of the Lending Survey, see https://www3.mnb.hu/penzugyi-stabilitas/publikaciok-tanulmanyok/hitelezesi-felmeres

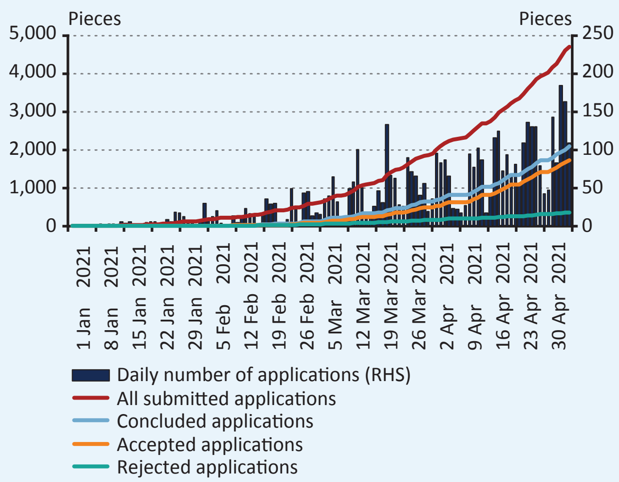
Chart 40
Volume of contracts in the Home Purchase Subsidy scheme by purpose



Note: The HPS utilisation of home purchases within housing transactions is the ratio of the sales and purchase of HPS-eligible properties and the number of HPS contracts.

Source: MNB, Ministry of Finance

Chart 41
Number of home renewal subsidy applications



Source: Hungarian State Treasury

by increasing loan amounts. Accordingly, for both used and new homes, the average loan-to-value ratio has risen since the end of 2015, to the largest degree in Budapest, where after a rise of 13 and 12 percentage points the average LTV level was 54 and 44 per cent, respectively in December 2020. Based on the loan purpose, mortgage loans taken for improvement and modernisation had the lowest loan-to-value ratio, i.e. 35 per cent on average. Nationwide, at the end of 2020, the average LTV ratio was 46 and 55 per cent for the purchase of new homes and used homes, respectively.

4.2 HOUSING BENEFITS SUPPORT DEMAND IN THE HOUSING MARKET

In 2020, the negative impacts of the pandemic did not materialise in demand for the Rural HPS. In 2020, the number and volume of contracts concluded under the Home Purchase Subsidy for Families fell substantially after the onset of the coronavirus pandemic. In parallel with the decline in sales of new homes, the volume of the HPS concluded for this purpose or for construction fell by more than 50 per cent year-on-year, while the volume of the HPS requested for the purchase of used homes fell by 18 per cent in annual terms (Chart 40). In 2021 Q1, the contracted volume continued to decline. In an annual comparison, only disbursements of the HPS for the purchase of used homes increased. 21 per cent of the housing loans disbursed in the fourth quarter, i.e. roughly HUF 49 billion, were housing loans accompanied by the HPS. However, demand for the Rural HPS did not fade in 2020. In the fourth quarter, almost 3,000 contracts were concluded in the amount of almost HUF 16 billion, more than three quarters of which were used for property purchases. On the other hand, the volume of the Rural HPS disbursed in 2021 Q1 fell to HUF 10 billion, which – apart from the period of launching the scheme – represents the lowest disbursement ever. Customers purchasing homes among market transactions rely on the subsidy only 14–15 per cent of those eligible for the HPS. However, this picture is nuanced by the fact that in case of new homes families purchasing a home use the subsidy for 50–60 per cent of those eligible for the HPS.

Utilisation of the home improvement subsidy is continuously rising. In order to improve housing conditions for families with children, starting from January 2021 a non-refundable state subsidy of HUF 3 million may be applied for by families living with their children below the age of 25 years in their own property and improving their home. Utilisation of the home improvement subsidy has been continuously growing since the start of the year: in January, February and March the daily average number of applications was 4, 16 and 48, respectively, whereas in April 84 home improvement applications were already submitted on a daily basis. Until the end of April 2021, a total of 4,600 applications were received for the subsidy, and the total amount of the received subsidy applications exceeded HUF 7 billion (Chart 41). On the whole, 47 per cent of the submitted applications were for improvements resulting in higher energy efficiency (modernisation of heating and hot water systems, including the use of renewable energy sources, replacement or renovation of doors/windows or roofs, installation of solar panels, insulation of buildings). Disbursement of home improvement loans linked to the subsidy is also increasing. Until March 2020, loans were disbursed in the amount of HUF 2.3 billion in total by those credit institutions that added the interest-subsidised loans to their product range from 1 February.

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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