HOUSING MARKET REPORT

2023
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 2023)

The analysis was prepared by Beáta Szabó, Ákos Bereczki, Csaba Lados, Viktor Dénes Varga, Sándor Winkler
(Directorate Financial System Analysis, Directorate Economic Forecast and Analysis)

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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. House 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 set 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' also represents a unique central bank publication at the international level, 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

Economic uncertainty, rising inflation and tighter monetary conditions led to a turning point in the housing market cycle in 2022 H2. This turnaround was reflected both in the number of sales and purchases and in lower house prices. In 2023, households' disposable income in real terms is expected to decline due to the high inflation environment, as a result of which demand may remain slack, further cooling off the housing market.

After having risen steadily since 2014, a quarter-on-quarter decline of 1.6 per cent was registered in house prices in 2022 Q3, followed by a drop of 3.6 per cent on a national average in 2022 Q4. This caused the annual house price appreciation to slow to 10.6 per cent by the end of 2022. On a regional basis, the decrease in prices shows a heterogeneous picture, which resulted in a further widening of the gap between the prices in Budapest and the provincial settlements. In 2022 Q4, house prices in the capital, provincial towns and villages decreased by 1.1 per cent, 2.9 per cent and 6.6 per cent, respectively, on a quarterly basis. As a result of falling house prices, nominal growth in wages and the steadily tight labour market, the overvaluation of house prices compared to fundamentals has eased overall. From 2022 H2, house prices declined in an increasing number of countries in Europe. The Hungarian trends, in terms of both housing transactions and price developments, are in line with the trends observed in the region.

The number of housing market transactions realised in 2023 Q1 fell 43 per cent in year-on-year terms, which can be deemed significant even by international standards. The low activity contributed to the decline in list prices and the rise in market bargain. The increase in energy prices observed in 2022 H2 also impacted the housing market, and thus properties with low energy efficiency were hit somewhat harder by the weakening market activity. According to our estimates, the price index for residential properties with below-average gas consumption rose 1.2 per cent in 2022 Q4, while it declined by 1.3 per cent for residential properties where consumption exceeds the limit set for subsidised utility prices.

The volume of new housing loans in February 2023 fell short of that registered in February 2022 by 68 per cent, with a decline in the average loan amount and a fall in the number of loan contracts concluded as contributing factors. Based on banks' responses to the Lending Survey, in 2023 Q1 credit institutions left the standards of housing loans unchanged and also do not plan to change these in the next half-year. In the first quarter, institutions observed a further decline in demand for housing loans, but looking ahead they already anticipate a pick-up in demand.

In 2022, 20,500 new residential properties were completed, exceeding the 2021 figure by just 3.2 per cent. However, completions in 2023 Q1 fell 20.2 per cent in an annual comparison. The 0.45 per cent annual renewal rate of the housing stock in Hungary is still low in European comparison. In addition to labour shortage, insufficient demand represents an increasing constraint for the Hungarian construction industry, and the double-digit annual increases in material and labour costs also hinder the launch of new projects. In 2022, the number of dwellings included in building permits issued rose 17 per cent. There was a decline in the case of detached houses, while home construction planned in multi-unit buildings saw significant growth. The latter was strongly influenced by the availability of the preferential, 5-per cent VAT rate on housing for a limited period. The number of dwellings included in new building permits issued in 2023 Q1 fell 37.6 per cent in year-on-year terms, while the decline was smaller for multi-unit buildings in Budapest. There was an increase in the number of dwellings in projects that obtained a building permit for new housing development in the capital, where construction and sales have not yet commenced, which could represent a growth reserve in the event of a revival in demand.

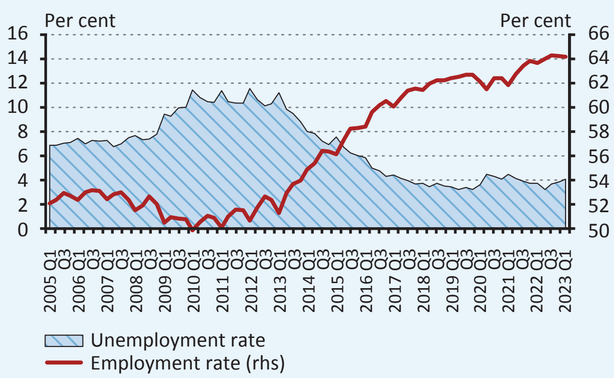
2 Demand in the housing market and house prices

By the end of 2022, the annual growth rate of the Hungarian economy decelerated to 0.4 per cent, boosting the uncertainty about economic prospects. As regards the cyclical factors determining housing market demand, the number of people in employment in the national economy remains high, while the unemployment rate is low even by international standards. With the tight labour market, no tangible growth in the unemployment rate is expected despite the economic slowdown. In 2023, households' disposable income in real terms is expected to decline, due to the high inflation environment. As a result of the negative factors impacting the housing market, in 2023 Q1 demand for residential property for sale fell almost to half of the year-on-year level, according to the data from the ingatlan.com advertising portal.

In 2022 Q4, house prices fell 3.6 percent on a national average versus the previous quarter, which caused house price appreciation to slow to 10.6 per cent by the end of 2022. The significant deceleration in the rate of increase in house prices is in line with the trend observed in EU countries. On a territorial basis, the decline in prices shows a heterogeneous picture. In the fourth quarter, compared to the fall of 1.1 per cent in the capital, prices declined by 2.9 per cent in the provincial towns and by 6.6 per cent in villages, thereby widening the price gap between Budapest and the provincial settlements. On the other hand, based on preliminary data, according to our estimates, house prices may have appreciated by 3.8 per cent at the national level in 2023 Q1. The overvaluation of house prices relative to macroeconomic fundamentals eased both in Budapest and on a national average, which may be attributable both to the declining house prices and the favourable developments in fundamentals. From 2022 H2, house prices declined in an increasing number of countries in Europe, and housing affordability appears to be improving in several European capitals.

The number of housing market transactions realised in 2022 fell 19 per cent compared to 2021, and the rate of decline rose further at the beginning of 2023, similarly to several European countries. Low activity may have contributed to the decline in asking prices and the rise in market bargain, but for the time being it has had no significant effect on the realised transactions' time to sell. Demand for rental flats already dropped in 2023 Q1, while the level of rental supply remained stable. Accordingly, the annual growth rate of rents decelerated to 18 per cent on a national average.

Chart 1
Unemployment and employment

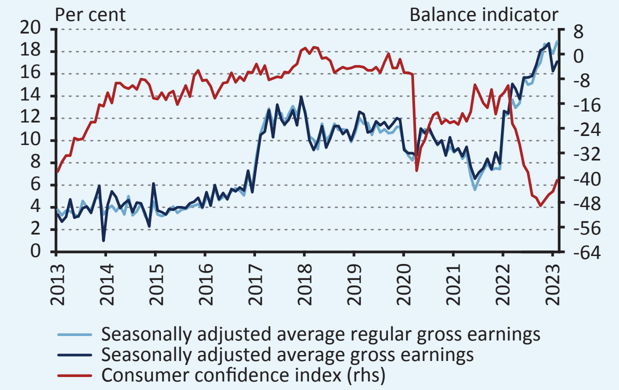


Note: In the age group of 15–74 years.
Source: HCSO

2.1 STRONG DEMAND ENVIRONMENT IN 2022 H1 FOLLOWED BY DETERIORATING FUNDAMENTALS

Employment remains at a high level. In 2023 Q1, the average number of employees aged 15–74 was 4.696 million. Based on seasonally adjusted data, in March 2023 employment slightly rose versus February. In 2023 Q1, the unemployment rate stood at 4.1 percent, representing an increase of 0.9 percentage point compared to 2022 Q2. However, the unemployment rate in Hungary is still considered low by international standards (Chart 1). According to our forecast, no major change is expected in the number of unemployed persons in 2023 H1, while the number may decline in the latter half of the year. The pre-pandemic unemployment rate is expected to be reached

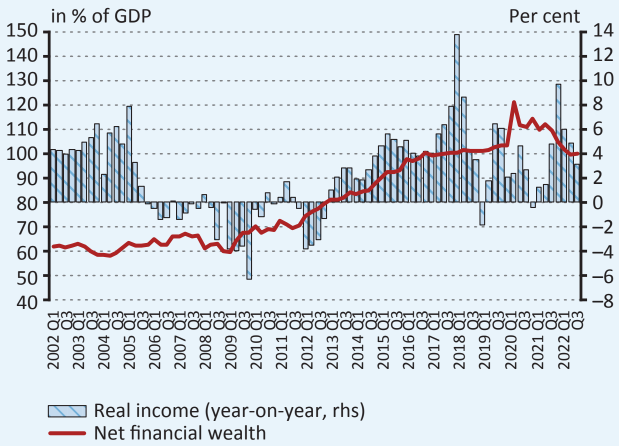
Chart 2
Annual dynamics of average wages in the private sector and changes in the household confidence index



Note: Based on seasonally adjusted series.

Source: HCSO, European Commission

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



Source: HCSO, MNB

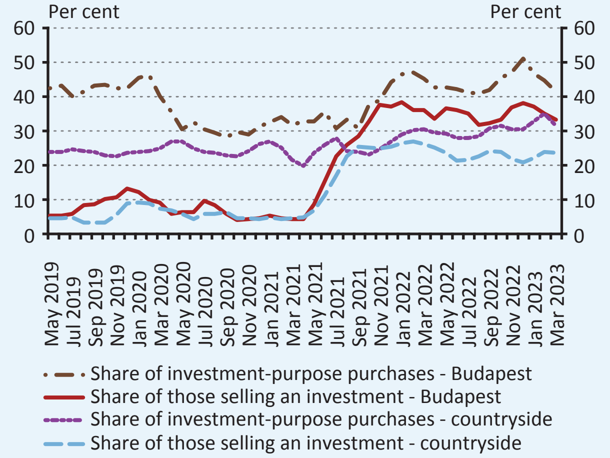
in 2024: according to our forecast, the unemployment rate this year may be 3.6–3.7 per cent and 3.1–3.6 per cent in 2024. On the other hand, based on the ESI – business sentiment monitoring – corporate survey conducted in April 2023, most companies in the construction and trade sectors plan to reduce headcount in the next three months. Based on the April data, sentiment in the construction sector improved compared to the previous month. In the other service sectors and in manufacturing, most companies anticipate an increase in headcount, although sentiment in the service sector did deteriorate compared to previous month.

Double-digit wage growth may persist in 2023 as well. In 2022 Q4, the gross average wage in the private sector (according to the HCSO's new methodology introduced in March 2023[3]) rose 18.1 per cent on an annual basis. Regular average wages rose 18.0 per cent compared to the same period last year, while bonus payments exceeded the average for previous years (Chart 2). Growth in average wages was over 15 per cent in most branches of the private sector in the fourth quarter. In February, annual wage growth in the private sector accelerated compared to January, but it still falls short of the rise seen at the end of the previous year. According to our forecast, in 2023, nominal wage growth may be more moderate than last year, but still remain at a high level. This year's wage dynamics are determined by the minimum wage increase early in the year and the historically high tightness of the labour market as well as declining inflation expectations. According to our forecast, in 2023 annual earnings growth in the private sector may be 13.7–14.4 per cent, while we anticipate a rise in earnings of 9.1–10.1 per cent in 2024.

In 2022, households' real income rose at a decelerating rate, which may be followed by a decline this year. In 2022, the growth dynamics of real earnings fell close to 3 per cent by the end of the year from roughly 10 per cent at the start of the year (Chart 3). This year, we anticipate a decline in households' disposable real income. The deterioration in income conditions is primarily caused by high inflation, which results in a fall in the purchasing power of wages. The degree of the fall in incomes is partly offset by the rise in sole proprietors' income and interest paid on households' savings. From early 2024, in parallel with a decline in inflation, households' real income may also increase, which implies growth in housing market demand.

[3] From January 2023, the HCSO publishes the wage statistics for the whole range of employers, while formerly its main indicator covered undertakings with at least 5 employees, more significant non-profit organisations and the budgetary sector.

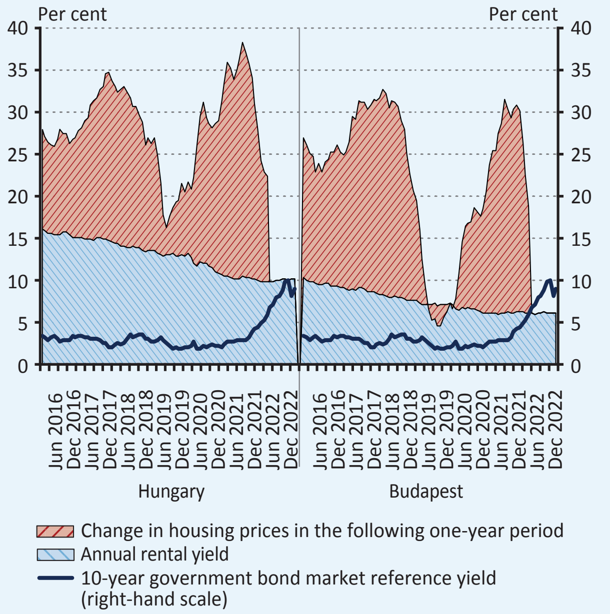
Chart 4
House purchases for investment purposes and ratio of those selling an investment



Note: Three-month moving averages.

Source: Duna House

Chart 5
One-year ex ante return on housing investments in Hungary and in Budapest by the time of house purchase



Note: Gross return without deducting public levies and costs, calculated as the quotient of gross rental income and house price. The rental price and house price data used for the calculation relate to a flat with a floor space of 60 square metres; this size corresponds to the floor space belonging to the median rental price of the periods. For the dates of house purchase after April 2022 no data for the one-year ex ante house price changes are available yet, only the return on rental.

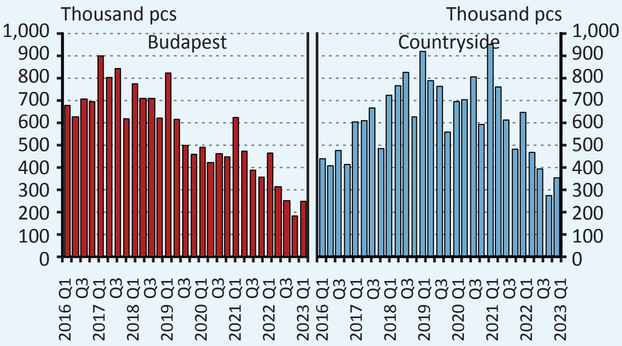
Source: Government Debt Management Agency, and MNB calculations based on HCSO-ingatlan.com rent index and monthly house price index calculated based on the transaction data of the MNB housing agent database.

The ratio of investors has stabilised both on the buyer and seller sides of the housing market. According to a survey conducted by the real estate agency Duna House, the proportion of those buying flats as an investment in Budapest and those selling a previously purchased investment increased slightly in 2022 Q4, followed by a decline at a similar rate in 2023 Q1. Accordingly, during the quarter under review 42 per cent of the buyers and 33 per cent of the sellers were investors, which essentially corresponds to the values registered six months earlier (Chart 4). In the countryside, the relative role of investors also stagnated in this period, with their ratio among buyers and sellers being 32 per cent and 24 per cent, respectively. The significant rise in the ratio of those selling investments, registered after the onset of the coronavirus pandemic, persisted, but it still falls short of the ratio of buyers for investment purposes. This implies that the stock of homes purchased as an investment may also continue to expand in a high interest rate and inflation environment.

Government securities market yields which are higher than the return realisable on letting may reduce investment demand. In the past seven years, in parallel with the rise in house prices, the one-year ex ante gross return realisable on the purchase and subsequent letting of flats gradually declined nationwide and in Budapest as well (Chart 5). While at the beginning of 2016, the gross yield realisable in one year was 16 per cent on a national average and 10 per cent in Budapest, by the end of 2022 this had dropped to 10 per cent and 6 per cent, respectively. The fall in the return on letting was attributable to the dynamic, 10–25 per cent annual rise in house prices in recent years, which compensated investors in the form of property appreciation in terms of the total return on investment. In the past seven years, the gross return realisable on investments in flats and letting in the one year after the purchase was typically 26–38 per cent on a national average, and 23–33 per cent in Budapest, considering letting and property appreciation together. An exception to this was the period between 2019 Q1 and 2020 Q4, when – after the outbreak of the pandemic – housing demand temporarily waned and the rate of price appreciation decelerated. In this period, house prices in Budapest stagnated, or even fell moderately in a year-on-year comparison. By 2022, the yields realisable on the government securities market – particularly the interest on retail government securities – reached, and in Budapest even exceeded, the gross returns realisable on letting, which overall implies a decline in investment housing demand.[4]

[4] In the case of foreign homebuyers, changes in the forint exchange rates may have also influenced demand.

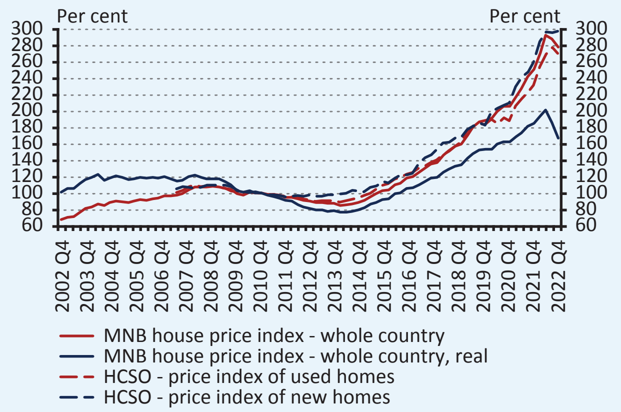
Chart 6
Demand for flats and houses for sale on the ingatlan.com advertising site



Note: Number of telephone number disclosures and phone calls initiated from mobile application.

Source: Ingatlan.com

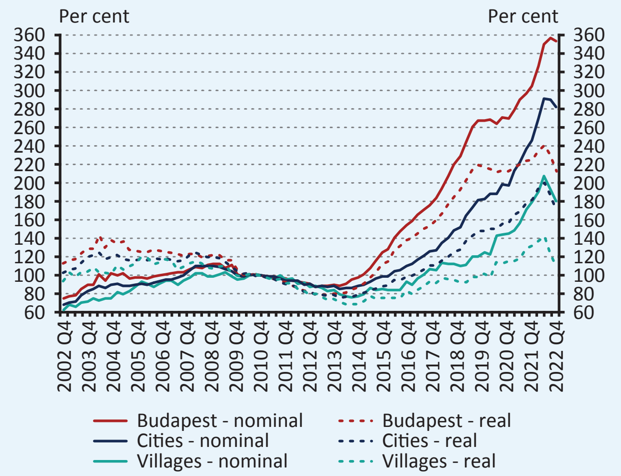
Chart 7
Nominal and real MNB house price index and the house price indices of the Hungarian Central Statistical Office (HCSO) (2010 = 100 per cent)



Note: The real price index deflated by the consumer price index.

Source: MNB, HCSO

Chart 8
Nominal and real MNB house price index by settlement type (2010 = 100 per cent)



Note: The real price index deflated by the consumer price index.

Source: MNB

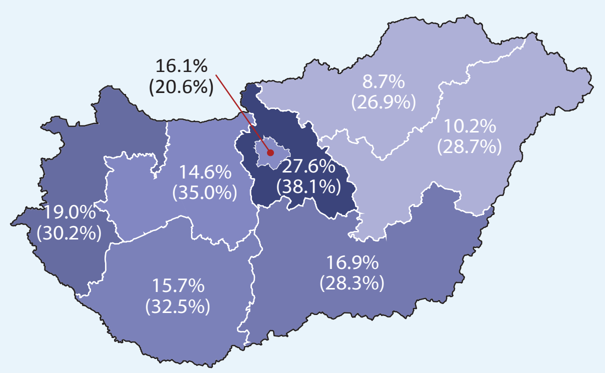
In annual terms, housing market demand has fallen by almost one half. According to data from the advertising portal ingatlan.com, in 2023 Q1 demand for residential property for sale in Budapest and in the countryside fell short of the year-on-year figure by 47 per cent and 45 per cent, respectively (Chart 6). The quarterly number of housing market inquiries hit a low at the end of 2022, followed by a moderate improvement, but this may also be a seasonal phenomenon. No substantial shift was observed in the ratio of inquiries about flats and detached houses for the last year to date, at 56 per cent and 44 per cent, respectively.

2.2 TREND REVERSAL IN RESIDENTIAL PROPERTY PRICES IN 2022 H2

Housing price indices reflecting national trends started to decline in 2022 H2. In 2022 Q4, house prices fell 3.6 per cent on a national average, preceded by a moderate, 1.6-per cent drop in the third quarter (Chart 7). As a result of this, the extraordinary rise in house prices seen in 2022 H1 (28.9 per cent on an annual basis) decelerated significantly, slowing to 10.6 per cent by the end of the year. In real terms, house prices fell 9.9 per cent in the span of one year in 2022. The indices monitoring the change in the price of used and new homes, as published by the Hungarian Central Statistical Office (HCSO), also indicate a decline in house prices at the end of the year. The price of used homes decreased by 2.6 per cent in 2022 Q4, while the price of new homes rose moderately, appreciating by 0.8 per cent, as a result of which the annual dynamics decelerated to 16.8 per cent and 14.6 per cent, respectively.

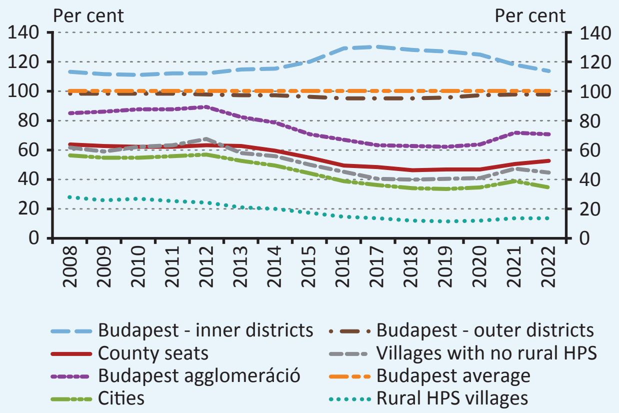
House prices declined to a larger degree in smaller settlements. In 2022 H2, domestic house prices varied by settlement type. In Budapest, the quarter-on-quarter increase was still 2.0 per cent in the third quarter, which was followed only by a small, 1.1-per cent decline in the fourth quarter (Chart 8). House prices in provincial towns stagnated in 2022 Q3, and declined by 2.9 per cent in quarter-on-quarter terms in 2022 Q4. By contrast, villages already registered a larger, 7.1-per cent decline in house prices in 2022 Q3, followed by an additional decline of 6.6 per cent in 2022 Q4. As a result of this, in Budapest the annual nominal growth rate of house prices declined from 20.6 per cent registered at the end of 2022 H1 to 16.1 per cent by 2022 Q4, while in provincial towns and villages it fell from 30.7 per cent to 14.4 per cent and from 33 per cent to 0.3 per cent, respectively. Based on the house price indices calculated on the basis of preliminary transaction data from real estate agents, house prices may have appreciated by 3.8 per cent at the national level in 2023 Q1, while in Budapest they may have declined further, by 1.0 per cent. The price changes reflected heterogeneity not only by

Chart 9
Development of urban house prices by region between 2021 Q4 and 2022 Q4 (between 2021 Q2 and 2022 Q2)



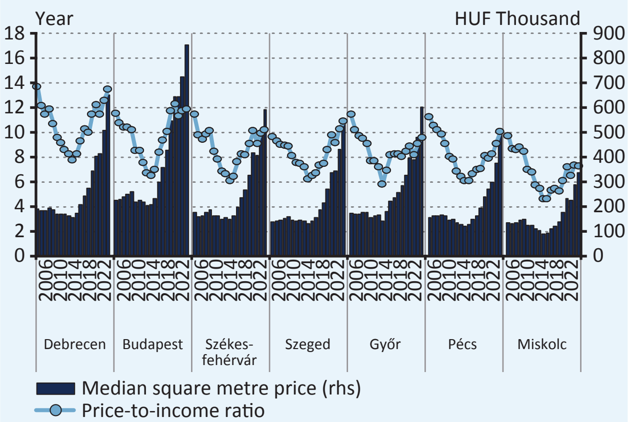
Note: The index for the Pest region was obtained with an extremely low level of processing for 2022 Q4; accordingly, the values for the index may later be subject to major revision.
Source: MNB

Chart 10
Average square metre price by settlement type (average of Budapest = 100 per cent)



Sources: NTCA, MNB

Chart 11
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 (new and used total) and average annual net income of the households. Average incomes are county-level data.
Sources: HCSO, MNB

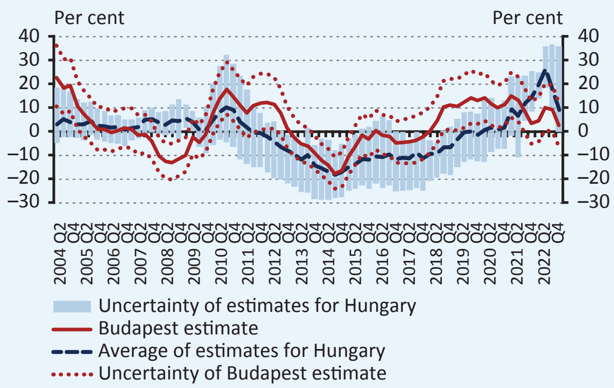
settlement type, but also in terms of energy consumption (Box 1).

The annual rate of increase in house prices tapered off significantly in all regions. In 2022 H2, a general slowdown in house prices was observed in all regions of Hungary, while the annual rate of increase in house prices in the provincial towns varied significantly. In 2022 Q4, urban house prices appreciated to the largest degree, i.e. by 27.6 per cent in an annual comparison, in the Pest region, also including the settlements in the Budapest metropolitan area, compared to 38.1 per cent registered at the end of 2022 H1 (Chart 9). The lowest annual house price growth was measured in the towns in Northern Hungary and in the Northern Great Plain, at 8.7 per cent and 10.2 per cent, respectively. In other regions of Hungary, the annual increase in urban house prices was around 15 per cent or slightly higher in 2022. Since 2013 Q4 – i.e. the start of the previous housing market cycle – significant differences were observed overall in the long-term developments in urban house prices. Urban house prices rose to the largest degree, by about 324 per cent, in the Pest region, while in towns in Northern Hungary the price increase was 197 per cent during the same period.

The gap between prices in Budapest and most rural settlements widened in 2022. In 2021, as a result of the pandemic, the price gap between Budapest and provincial settlements narrowed significantly in terms of the average price per square metre. In particular, the relative price level of settlements in the Budapest Metropolitan Area approximated that of Budapest, from 64 per cent in 2020 to 72 per cent. On the other hand, average prices per square metre in Budapest rose to a larger degree compared to both provincial towns and villages in 2022 (Chart 10). Convergence to Budapest continued only in the housing price level of the county seats, with a price increase exceeding that registered in the capital, and thus the average level of price per square metre relative to Budapest rose to 53 per cent from 51 per cent of 2021. In addition to the foregoing, last year the differences in price level within Budapest also declined.

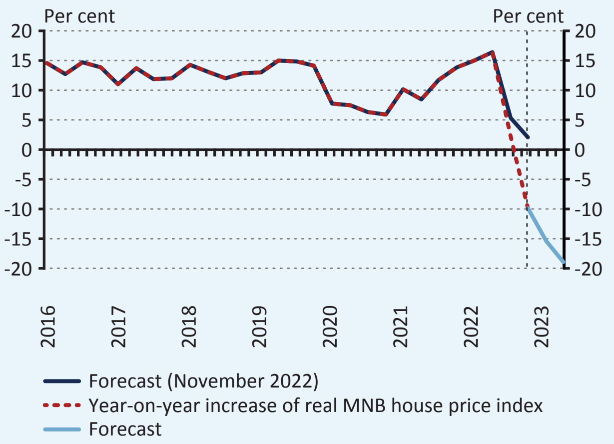
Housing affordability deteriorated in most large cities. Following a temporary improvement in the period after the outbreak of the pandemic, the level of house prices compared to incomes started to rise again in 2021, and this trend continued in 2022 in most of Hungary's regional centres. The highest rate was registered in Debrecen, where 13.5 years of total average net income was required to buy a median-priced flat of 75 square metres in 2022 compared to 12.6 years in 2021, further worsening the affordability of housing (Chart 11). Since 2004, Szeged has seen the highest increase in house prices relative to incomes, while in Budapest the ratio of house prices compared to average

Chart 12
Deviation of house prices from the level justified by fundamentals, nationwide and in Budapest[5]



Source: MNB

Chart 13
Forecast for the MNB's aggregated real house price index (annual change)



Source: MNB

incomes rose to 11.9 years, the highest figure excluding 2019.

The overvaluation of residential property prices relative to fundamentals eased. In 2022 Q3 and Q4, the overvaluation of house prices relative to real economic fundamentals declined significantly on a national average and also in Budapest. In addition to the favourable labour market trends, this was primarily attributable to the sharp rise in inflation and the related decline in real house prices (Chart 12). The fall in house prices in nominal terms coincided with high inflation in 2022 H2, resulting in a large decline in real house prices. Households' disposal real income still increased in 2022; within that, core earnings (sum of the real net wage bill and financial transfers) declined moderately, by 1.8 per cent, while the unemployment rate remained at a low level. Due to the favourable developments in fundamentals and the fall in house prices, the positive house price gap narrowed substantially.

In 2023 H1, we anticipate a decline in real house prices on an annual basis. According to our expectations, in 2023 Q1 real house prices may have fallen 15.4 per cent in year-on-year terms. A steeper decline of 18.9 per cent is expected in the second quarter, in line with the macroeconomic path projected in the March Inflation Report (Chart 13). The main macroeconomic fundamentals shaping the housing market trends (real earnings, lending to households) may develop unfavourably in the first half of the year, possibly curbing housing market demand and thus causing real house prices to decline.

[5] 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 2022; 2) Estimate of the long-term equilibrium of Hungarian house prices driven by macroeconomic fundamentals by means of a vector error correction model frame (vECM). For a detailed methodology, see: Tamás Berki–Tibor Szendrei (2017): The cyclical position of housing prices – a VECM approach for Hungary, Magyar Nemzeti Bank, OP 126; 3) Estimate of the level of Hungarian house prices driven by macroeconomic fundamentals by means of a dynamic OLS model frame; and 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.

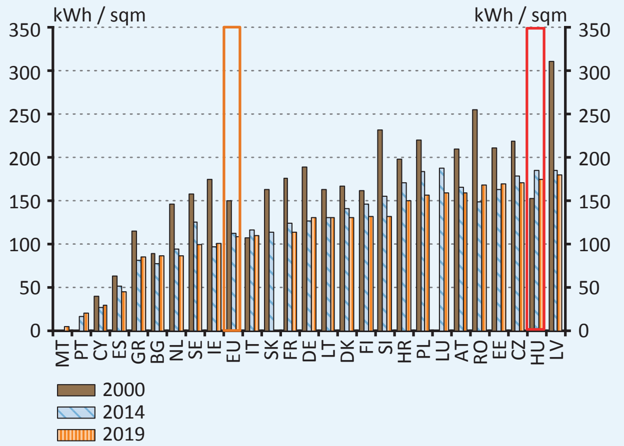
Box 1

Impact of the energy crisis on hungarian housing market developments

The energy efficiency of Hungary's stock of residential properties is poor in an EU comparison. In 2019, the energy consumption of an average flat in Hungary as a proportion of the floor area amounted to 227 kWh/square metre. When examining energy consumption specifically for heating purposes as a proportion of the floor area, the Hungarian figure (174 kWh/square metre) exceeded the EU average (109 kWh/square metre) by 60 per cent and is the second highest among the EU Member States.[6] Also considering the differences between the climate of the individual countries, i.e. the average temperature in Hungary exceeds the EU average, it is clear that the energy efficiency of residential buildings in Hungary is extremely poor in an EU comparison. No improvement can be seen in the Hungarian figures even on a time series basis. In 2000, the average energy consumption of flats in Hungary for heating purposes essentially corresponded to the EU average, but while in the vast majority of the Member States the consumption under review decreased, Hungary registered growth. The latter may be attributable to the fact that in Hungary the pace of modernising the stock of dwellings in terms of energy efficiency has not been sufficient even to offset the additional consumption arising from higher living standards.

In connection with the steep increases in the world market price of gas in 2022 and the amendment of the utility price reduction scheme announced last summer, we examined whether any trend can be identified in the Hungarian housing market that suggests a decline in the relative market value of flats with poor energy efficiency. Due to the poor energy efficiency of the stock of dwellings, as mentioned above, house prices in Hungary may be sensitive to the significant increase in energy prices, i.e. utility costs. The exchange price of the Dutch TTF, i.e. the main natural gas price in Europe, rose significantly at the end of 2021 and in 2022; in August 2022 it exceeded EUR 300 per contract, while a year before it had fluctuated around EUR 20. Responding to the market trends, the Hungarian government revised the rules of the utility price reduction scheme from August 2022. Accordingly, the retail price of mains

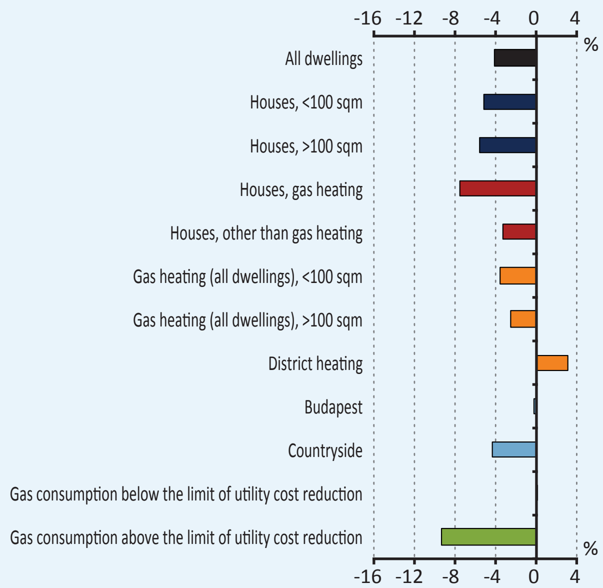
Heating energy consumption of dwellings in proportion to floor area in EU member states



Note: The energy consumption was adjusted based on the average daily temperatures experienced in the heating period of a given year in a given country and the long-term average daily temperatures of the heating period.

Source: Odyssee

Quarterly change in average square meter prices in the fourth quarter of 2022



Note: Changes in the breakdown according to utility cost reduction are based on the transaction database of real estate purchased with a mortgage, the other changes are based on housing agents' data.

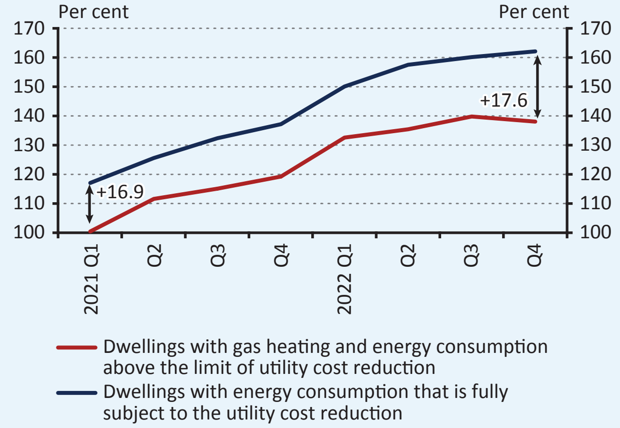
Source: MNB, housing agents' database

[6] The source of the comparative data is the Odyssee database, created under the coordination of ADEME, the French Environment and Energy Management Agency, also supported by the EU Horizon 2020 programme, with the contribution of 36 partner institutions from 31 European countries. The Hungarian contributor was the Hungarian Energy and Public Utility Regulatory Authority (MEKH).

gas and electricity over and above the average consumption rose by more than sevenfold and roughly twofold, respectively. Thus, the rise in utility costs may have mostly affected properties with larger floorspace (more difficult to heat) which are heated with gas. Accordingly, we categorised the residential property transactions by floorspace, property type and type of heating. Our results show that the average price per square metre in 2022 Q4 fell to a larger degree on a quarterly basis in the case of detached houses heated by gas than those using other forms of heating. On the other hand, the average price per square metre of flats with district heating – paying a reduced price for their entire heating energy consumption – actually increased. When examining residential properties (or a narrower group of those) broken down merely by small and large floorspace, no significant difference could be identified in the change in average price per square metre. Following this, in the case of properties bought on credit, using the data related to energy-efficiency categories, floorspace and the external insulation together, we estimated the energy consumption of which properties heated by gas may exceed the limit for the reduced utility price. The average price per square metre of the properties identified in this way declined significantly, dropping by 9.4 per cent in 2022 Q4, while the price per square metre of properties heated by gas, but – according to our estimates – not exceeding the consumption limit for reduced utility price, stagnated on a quarterly basis. On the other hand, the change in the average prices per square metre may also reflect composition effect in the transactions; therefore, we examined the same issues also by estimating the house price indices.

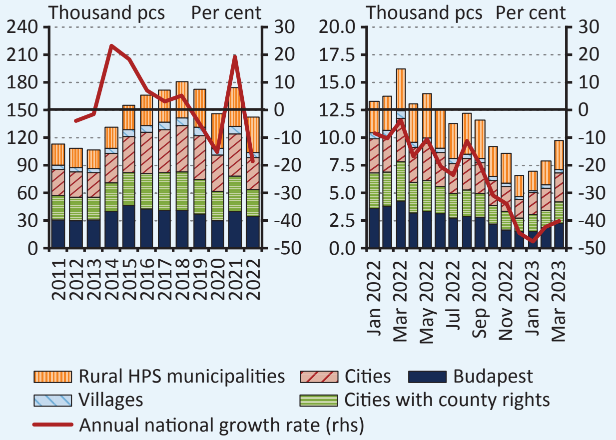
Based on the price index estimated for the residential property transactions purchased on credit, the difference between the change in the prices of residential properties exceeding and not exceeding the limit for the reduced utility price may have been smaller, at around 2.5 percentage points, in the fourth quarter. In order to eliminate composition effects, we created a hedonic price index based on the transaction database of residential properties bought on credit and serving as collateral for banks, including 57,500 transactions between 2021 Q1 and 2022 Q4, setting out from the MNB's House Price Index Methodology. In addition to the explanatory variables related to the floorspace, the settlement type, the number of inhabitants, the year of construction and several others related to the geographic location of the property, we also included in the regression the previously derived dichotomous variable – categorising homes by energy consumption – as well as the interaction of that with time. According to our result, the price premium of residential properties with energy consumption falling within the reduced utility price limit among the properties all other characteristics of which are identical – originally purely attributable to the more favourable energy efficiency features – varied between 12.6 and 16.9 per cent since 2021 Q1, compared to the residential properties with gas consumption exceeding the limit for the reduced utility price. In 2022 Q4, this price premium rose moderately and reached 17.6 per cent. While in 2022 Q4 the price index of residential properties identified as fully falling within the limit for the reduced utility price rose 1.2 per cent, that of residential properties exceeding the limit fell 1.3 per cent. Our analysis is not suitable for proving the existence of a cause-and-effect relationship, but it can be assumed that the change in the rules applicable to the reduced utility price has contributed somewhat to the fall in the value of properties with gas heating, which consume the largest volume of energy. The fact that the amended rules applicable to reduced utility prices, effective from August, resulted in the separation of house price fluctuations only in 2022 Q4 rather than in 2022 Q3 may be attributable to the fact that sellers initially may have been reluctant to reduce the prices and that the number of sales and purchases in the housing market declined significantly in the fourth quarter, and this was the time when the fall in market liquidity may have enforced the price correction.

The development of the price index of residential properties purchased with a mortgage, broken down by energy consumption



Source: MNB

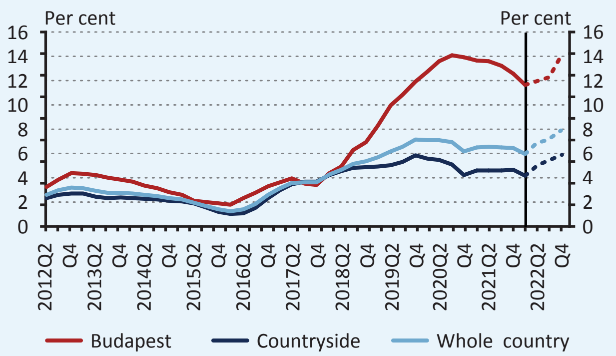
Chart 14
Number of housing market transactions by settlement type



Note: Taking into account ownership acquisitions of 50 per cent and 100 per cent by individuals. From April 2021 until September 2022, data from the NTCA's levy database, adjusted based on the estimated level of processing by settlement type. From October 2022, based on real estate agents' transactions and estimated market share. According to our estimates, in March 2022 real estate agents' transactions accounted for 12.4 per cent of market turnover nationwide and for 15.0 per cent of sales and purchases in Budapest.

Source: NTCA, MNB, housing agent database

Chart 15
Ratio of new home transactions to transactions in Budapest and rural areas



Note: Four quarterly rolling ratios. Only purchases by private individuals are taken into account. Estimate based on the number of new completions by companies since 2022 Q2.

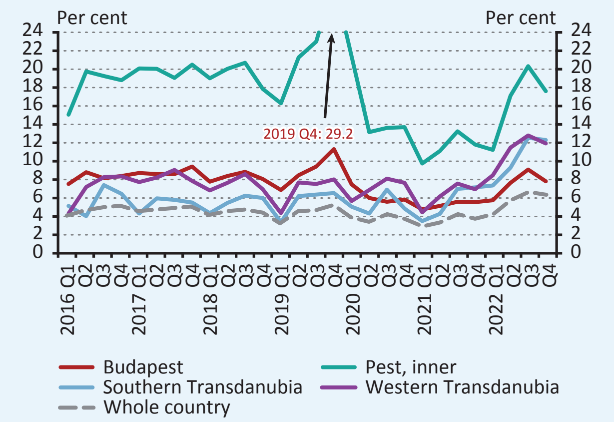
Source: NTCA, HCSO, MNB, housing agent database

2.3 HUNGARIAN HOUSING MARKET MARKED BY A DECREASING NUMBER OF SALES AND INCREASING BARGAIN

The number of housing market transactions fell to an extremely low level. The number of housing market transactions by private individuals declined steadily throughout 2022, followed by a sharp drop at the end of the year to fall permanently below 10,000 per month. Thus, according to preliminary data, a mere 142,000 transactions may have been realised in 2022 as a whole compared to 175,000 transactions in 2021, corresponding to a decrease of 19 per cent. The extremely low activity contributed to a decline in asking prices and a rise in market bargain. The subdued housing market activity persisted in 2023 Q1 as well: according to our estimates, the number of housing market sale and purchase transactions amounted to 24,600 nationwide, falling short of the year-on-year transaction figure of 43,200 by 43 per cent (Chart 14). The last time when a lower number of sales and purchases was recorded in the first quarter was in 2013, at the turning point of the housing market cycle. As regards individual settlement types, the number of transactions contracted to the smallest degree, by 32 per cent, in settlements eligible for rural HPS, while transactions sank by 52 per cent in Budapest, by 49 per cent in towns of county rank, by 36 per cent in other towns and by 56 per cent in other villages, in the first quarter in year-on-year terms.

The ratio of new home transactions may have risen within market turnover in 2022. According to our estimates, based on the number of new completions by companies, the annual rolling ratio of new home purchases within home purchases by private individuals rose from the prior-year figure of 6.4 per cent to 7.8 per cent at the national level in 2022 Q4 and may have reached the highest value to date in the current housing market cycle (Chart 15). In the countryside, during the same period, the ratio of new flats within transactions may have increased from 4.6 to 5.8 per cent. In 2021, the ratio of new home transactions still declined in Budapest, while it may have significantly increased in 2022, with the ratio of new homes reaching 13.9 per cent compared to 12.5 per cent one year earlier. In parallel with the significant reduction in the number of purchase transactions, the high ratio of new homes nationwide may be attributable to the fact that new completions can adjust to the changed demand conditions only with a delay of several quarters.

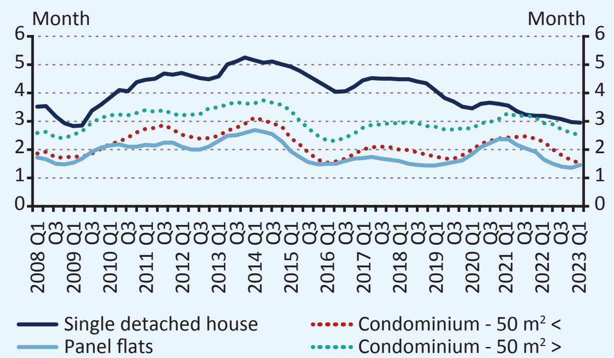
Chart 16
Ratio of foreign buyers in some priority regions' housing markets



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

Source: NTCA

Chart 17
Median time to sell residential property by type of property



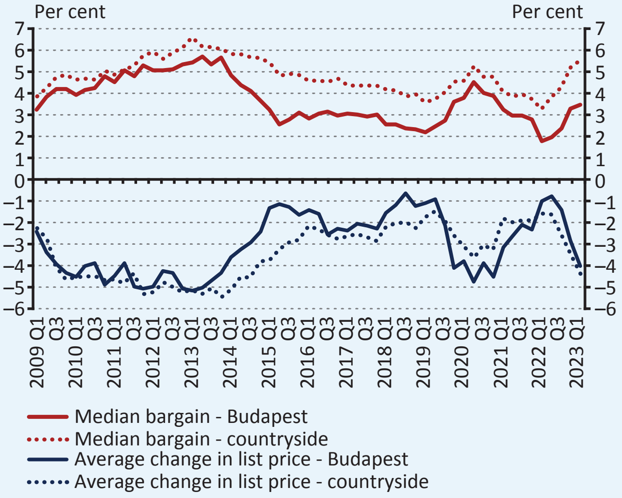
Note: Time from the start of advertising to sale. Annual rolling averages.

Source: MNB, housing agent database

At the national level, the ratio of foreign buyers grew steadily in 2022. Following a rise in 2022 Q2, the ratio of foreign buyers remained at a high level, amounting to 6.4 per cent nationally in 2022 Q4 (Chart 16). The higher ratio of foreign buyers compared to previous years was largely attributable to provincial settlements, which account for roughly three quarters of housing market transactions. This ratio rose to the largest degree in the Southern Transdanubia and Western Transdanubia regions, accounting for 12.4 per cent and 12.0 per cent, respectively, in 2022 Q4. The ratio of foreign buyers in the inner districts of Pest, which attract the largest number of foreigners, accounted for 17.7 per cent in 2022 Q4, and thus for Budapest as a whole the ratio of foreign buyers advanced to 7.9 per cent from 5.6 per cent in year-on-year terms. The depreciation of the domestic currency following the outbreak of the Russian-Ukrainian war in February 2022 provided a favourable opportunity to purchase property for foreign buyers and those saving in foreign currency, who thus appeared in the market in a similar number as before, while the number of sales and purchase transactions by residents declined materially.

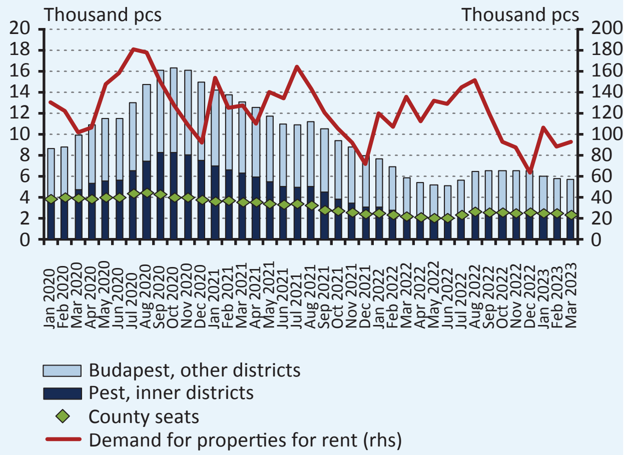
So far, the time to sell of realised transactions has not been influenced by the declining housing market activity. In 2023 Q1, the annual rolling average median time to sell for residential property fell to 2.3 months from 2.7 months one year earlier (Chart 17). In the case of detached houses, the median time to sell declined in one year from 3.2 months to 2.9 months, in the case of condominium flats larger than 50 square metres from 2.2 months to 1.5 months, for condominium flats smaller than 50 square metres from 2.9 months to 2.5 months and for panel flats from 1.6 months to 1.5 months. On a quarterly basis, a small increase in the time to sell was observed only among panel flats, i.e. the fastest-selling property type. The typical times to sell are low even in a historical comparison for all property types. On the other hand, based on the significant decline in the number housing market sales and purchases, newly advertised residential properties may sell more slowly, and thus the increase in the times to sell may only appear in the data later, when these properties are finally sold.

Chart 18
Median bargain in the Budapest and rural housing markets, with the average change to 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. Sources: MNB, housing agent database

Chart 19
Number of individual advertisements of property for rent on ingatlan.com on the last day of the given month, and demand for rental flats in the respective month



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

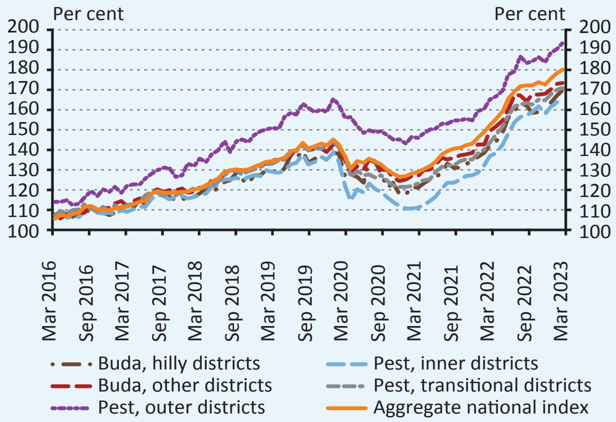
Source: Ingatlan.com

The extent of the typical bargain continued to increase, and during the period of advertising asking prices were reduced to a larger degree. The median market bargain has been steadily increasing from its low registered in 2022 Q4. In Budapest, the median bargain in 2023 Q1 was 3.5 per cent compared to the year-on-year figure of 1.7 per cent, while in the countryside it rose from 3.2 per cent to 5.5 per cent during the same period, which overall implies weakening demand compared to supply (Chart 18). Advertisers tend to reduce asking prices to an increasing degree; in Budapest and in the countryside asking prices fell during the period of advertising by 4.0 per cent and 4.4 per cent, respectively, which significantly exceeds the figures of 1.0 per cent and 1.6 per cent, registered during the same period of last year. Persistently very low levels of demand and sales transaction numbers may point to further growth in bargain and an even larger degree of reduction in asking prices.

2.4 STAGNATING RENTAL SUPPLY, ACCOMPANIED BY SLOWER INCREASES IN RENTAL PRICES

The volume of properties to let remained unchanged, while demand for such started to decline. Based on data from the ingatlan.com advertising portal, following the growth observed in summer 2022, the available rental flats in the county seats remained broadly unchanged, and thus the number of properties to let in the rental markets of these towns was 2,300 at the end of March 2023, up 7 per cent year on year (Chart 19). In Budapest, 2,200 flats were advertised for rent in the inner districts of Pest at the end of March, reflecting stagnation, both in an annual and in a semi-annual comparison. However, in the outer and transitional districts, supply started to shrink in 2023 Q1: the 3,500 flats advertised for rent in March represents a year-on-year decline of 4 per cent. Nevertheless, rental supply in Budapest is still higher than its low point from last June. In the meantime, demand for rental flats has already started to fade. The number of disclosed phone numbers and calls initiated through mobile application on the ingatlan.com portal in 2023 Q1 fell short of the same period of 2022 by 21 per cent. The reduction in demand may contribute to a slower rise in rental prices.

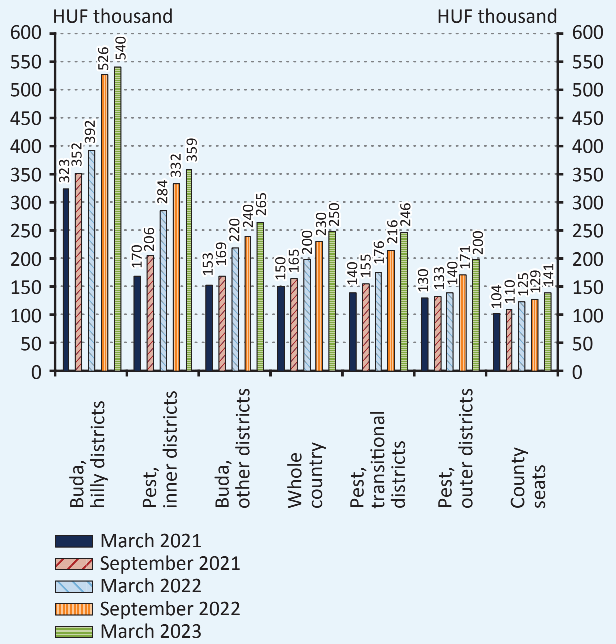
Chart 20
Rent indices of groups of districts in Budapest based on flats to rent advertised on ingatlan.com (2015 = 100 per cent)



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 21
Average rents based on flats to rent advertised on ingatlan.com



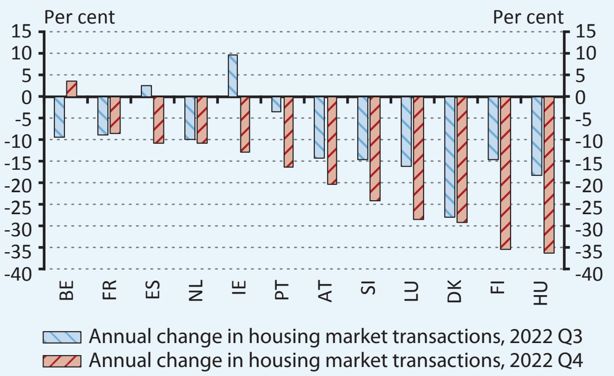
Note: The rents per category are the average value of the average rental prices in the districts belonging to the respective category, weighted by the number of advertisements. Buda, hilly districts: I., II., XII., Buda, other districts: III., XI., XXII., Pest, inner districts: V., VI., VII., VIII., IX., Pest, transitional districts: X., XIII., XIV., XIX., XX., Pest, outer districts: IV., XV., XVI., XVII., XVIII., XXI., XXIII.

Source: HCSO-Ingatlan.com

The annual growth rate of rents declined between September 2022 and March 2023. Compared to the previous Housing Market Report, the annual growth rate of rents fell from 24.2 per cent to 19.0 per cent in Budapest and from 22.4 per cent to 18.0 per cent countrywide between September 2022 and March 2023, according to the HCSO-ingatlan.com rent index (Chart 20). During the same period, among the individual district groups of the capital, rent dynamics weakened to the largest degree in the inner districts of Pest, falling from 27.0 per cent in September to 20.4 per cent by March; nevertheless, the annual price increase was still the highest in this district group. In annual terms, rents in the more expensive other districts in Buda (3rd, 11th, 22nd) rose to the smallest degree, by 16.1 per cent. In the first three months of 2023, rents in Budapest rose by 4.5 per cent in total, and by 4.4 per cent on a national average compared to their level in December 2022.

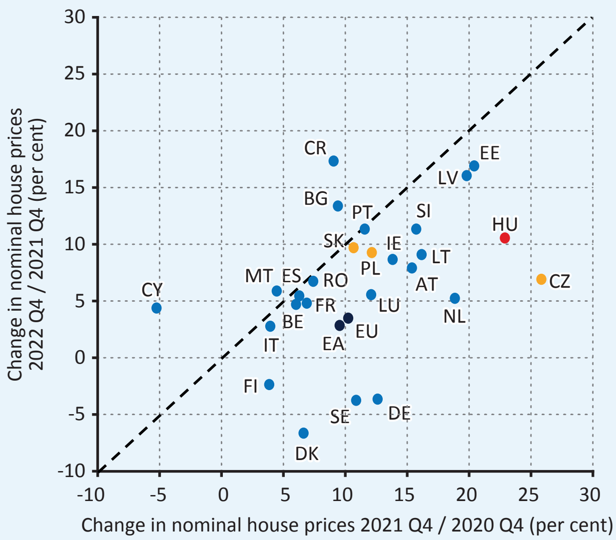
In the capital, rents even in the cheapest, outer district of Pest, reached HUF 200,000. At the end of March 2023, the available rental supply in the hilly districts of Buda still consisted of properties of extremely high rent, at HUF 540,000 per month on average, which however represents an increase of only HUF 14,000 in the last two quarters (Chart 21). During the same period, in the other district groups of Budapest, there was a balanced increase in asking rents at HUF 25,000-30,000 on average. Average rent in the inner districts of Pest, the other districts of Buda, the transitional districts of Pest and the outer districts of Pest reached HUF 359,000, HUF 265,000, HUF 246,000 and HUF 200,000, respectively. In the county seats, the average rent of flats to let rose from HUF 129,000 in September 2022 to HUF 141,000 in March 2023, with the rate of annual increase also falling short of that seen in the capital.

Chart 22
Changes in the number of housing market transactions in Europe



Note: Hungarian data based on MNB calculation.
Source: Eurostat, MNB

Chart 23
Nominal house price developments in Europe



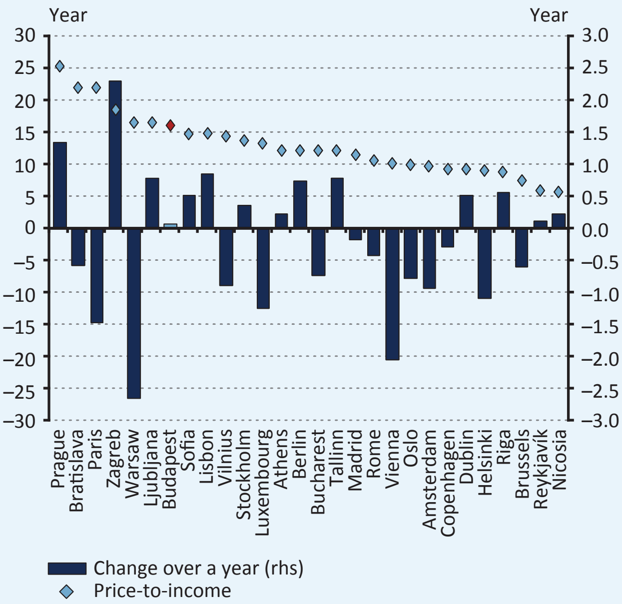
Source: Eurostat, MNB

2.5 HOUSE PRICES IN EUROPE STARTED TO DECLINE, AND HOUSING AFFORDABILITY IMPROVED IN HALF OF THE CAPITALS

Housing market activity weakened substantially in Europe in 2022 H2. In the twelve countries that provide Eurostat with the number of sales and purchases in the housing market, the year-on-year median change in the number of transactions was -12 per cent in 2022 Q3 and -18 per cent in 2022 Q4 (Chart 22). In Austria and Slovenia, both bordering on Hungary, the number of housing market transactions fell 14–15 per cent in 2022 Q3 and by 20 and 24 per cent, respectively, in 2022 Q4 in annual terms. Of the countries examined in the fourth quarter, Finland and Hungary registered the largest fall in the number of sales and purchases, at roughly 35–36 per cent.

At an annual level, house price dynamics decelerated, and nominal house prices already declined in Europe in 2022 Q4. Between 2021 Q4 and 2022 Q4, the rise in nominal house prices decelerated significantly in the vast majority of EU Member States compared to the rate observed in past years, while the Nordic countries and Germany already registered a decrease (Chart 23). The long-standing rise in house prices continued in 2022 Q2 in all Member States, while a nominal decrease was registered in seven countries in the third quarter and in fifteen countries in the fourth quarter already. On an EU average, annual house price dynamics decelerated to 3.6 per cent by 2022 Q4 from the year-on-year figure of 10.2 per cent, and on a quarterly basis residential property prices already fell 1.5 per cent. Of the Visegrád countries, in Poland and Slovakia annual nominal house price growth was close to 10 per cent after a moderate slowdown, while in the Czech Republic – the only country that registered a larger increase in house prices than Hungary – the annual rate of price increase decelerated significantly, falling from the year-on-year level of 26 per cent to below 7 per cent in 2022 Q4. Due to the substantial rise in inflation, house prices started to decline in real terms in a wide range of the EU Member States even at an annual level.

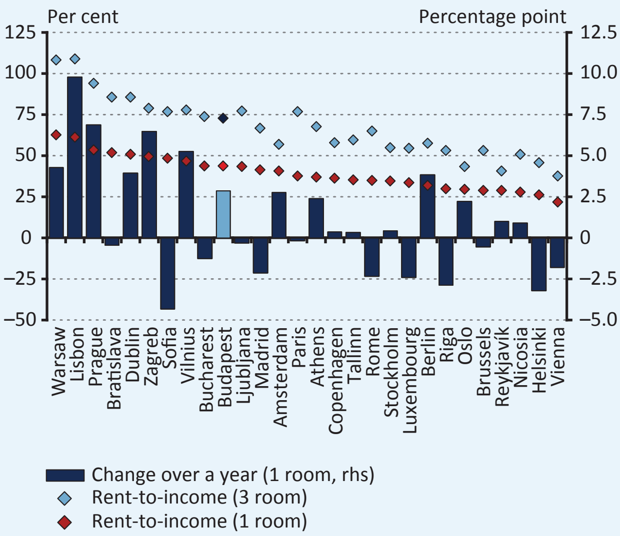
Chart 24
Price-to-income ratios in European capitals (2023 Q1)



Note: The price-to-income ratio is the ratio of the average house prices outside the city centre to the national average wage. Calculations based on 75-square metre homes. Change between 2022 Q1 and 2023 Q1. Budapest is marked with a different colour.

Source: Eurostat, numbeo.com

Chart 25
Rent-to-income ratio in European capitals (2023 Q1)



Note: The rent-to-income ratio is the quotient of the rent for a typical rental flat in the capital outside the city centre and the national monthly net average income. Change between 2022 Q1 and 2023 Q1. Budapest is marked with a different colour.

Source: Eurostat, numbeo.com

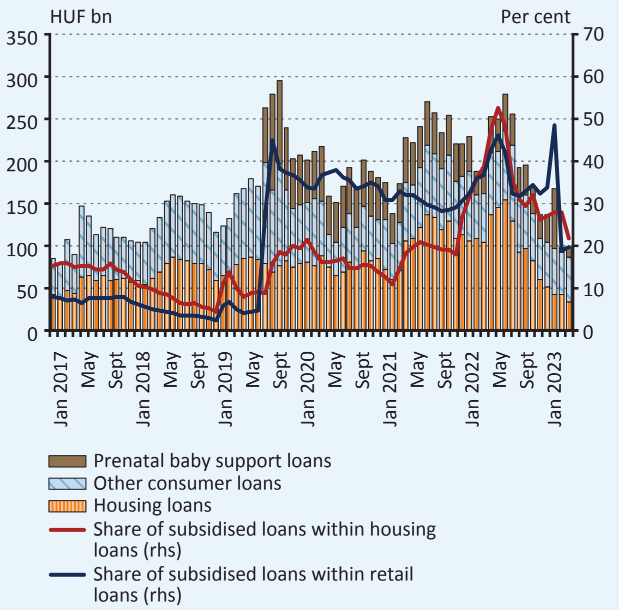
Housing affordability improved in half of the European capitals. In 2023 Q1, buying a 75-square metre residential property in Budapest required 16.2 years of national average income, which corresponded to the year-on-year figure (Chart 24). This made Budapest the seventh least affordable capital in the European ranking. Last year, owing to the decelerating increase in house prices at a rate lower than the increase in wages, in half of the European capitals – disregarding the credit market conditions – affordability already improved, while in the other half of those a minor deterioration was observed. The capitals of the Visegrád countries were characterised by different trends: affordability in Prague deteriorated, with a 75-square metre property of average price requiring an average national income of 25.5 years, while the same value in Bratislava was 22.0 years after a small year-on-year fall and 16.7 years in Warsaw after a substantial improvement.

Affordability in the least affordable European rental markets deteriorated further. In 2023 Q1, the rent for a typical 3-bedroom or 1-bedroom flat in the Hungarian capital was 72.8 per cent and 43.5 per cent of the average net wage in Hungary, respectively (Chart 25). One year ago, these ratios were 72.4 per cent and 40.6 per cent, respectively, showing that rents have risen faster than incomes. In most of the least affordable rental markets of the European capitals, i.e. in the CEE region in Warsaw, Prague and Zagreb, and in the capital of Portugal and Ireland, affordability deteriorated further. Of the most expensive rental markets, relative to the incomes, affordability improved substantially only in Sofia. The capitals of the Visegrád countries still belong to the group of least affordable cities in Europe: in Bratislava, the rent/income ratio for a one-bedroom flat is 51.9 per cent, 53.6 per cent in Prague and 62.6 per cent in Warsaw. When examining the disposable income at purchasing power parity remaining with the tenant after paying the typical rent for a 1-bedroom flat from an average wage, the ranking of the V4 countries changes slightly: This figure at purchasing power parity is EUR 890 in Budapest, EUR 788 in Prague, EUR 677 in Warsaw and EUR 572 in Bratislava. By contrast, in the capital of Austria, the purchasing power of the remaining income after rent is close to EUR 2,000.

3 Lending and subsidies for housing

The decline observed in the disbursement of new loans to households in 2022 Q4 continued in 2023 as well for all product types. Housing loans experienced the largest decline, which was also attributable to the high base resulting from the launch of the FGS Green Home Programme, the general economic uncertainty, lower demand connected to the declining volume of housing market transactions and tighter monetary conditions. In February 2023, the volume of loan applications for the purchase or construction of new housing fell short of the year-on-year level by 78 per cent, while the average loan amount included in the loan applications for these purposes declined by almost HUF 6 million in one year. In 2022 H2, the affordability of home purchase on credit deteriorated further in Budapest, as the purchase of both new or used homes would slightly overstretch the liquidity of even the households eligible for home purchase subsidy. On the other hand, in the countryside subsidies continue to provide substantial support for home purchases by families planning to have three children. In conjunction with the persistently high house prices, the median loan-to-value ratio decreased sharply in Budapest. Based on banks' responses to the Lending Survey, in 2023 Q1 credit institutions left the standards of housing loans unchanged and also do not plan to change these in the next half-year. In the first quarter, institutions observed a further decline in demand for housing loans, but looking ahead they already anticipate a pick-up in demand for these products.

Chart 26
Newly contracted household loans and share of subsidised loans in the credit institution sector



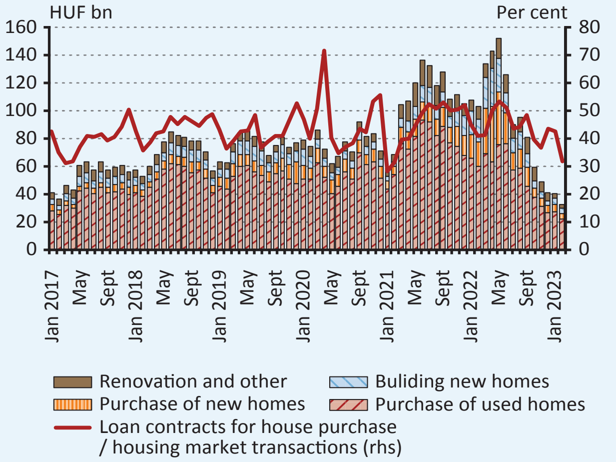
Note: Other consumer loans include home equity loans, vehicle loans, other consumer loans and hire purchase loans as well as personal loans.

Source: MNB

3.1 SIGNIFICANT DECLINE IN THE VOLUME OF LOANS DISBURSED FOR NEW HOUSING

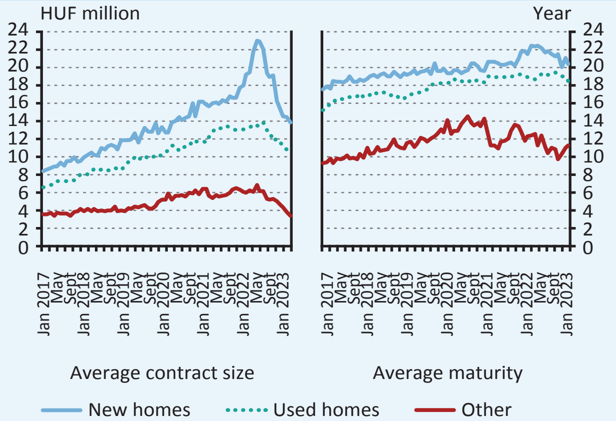
The disbursement of loans to households continued to decline at the beginning of 2023 as well. In 2022 Q4, credit institutions concluded loan contracts with households in the amount of HUF 440 billion, representing a drop of 34 per cent in annual terms. The decline continued in 2023: in February, the disbursement of loans to households fell short of the prior-year volume by 49 per cent, with the decline affecting all product types. Housing loans registered the largest decline (HUF 33 billion), dropping 68 per cent from the level of last February. Home equity loans and personal loans both declined by 8 per cent in annual terms, while the volume of prenatal baby support loans amounting to HUF 12 billion fell 61 per cent (Chart 26). The ratio of state subsidised loans fell from the level of about 40 per cent observed during the FGS Green Home Programme to nearly 20 per cent, the lowest ratio since the introduction of the prenatal baby support loans.

Chart 27
Disbursement of housing loans by loan purpose and share of home purchase on credit



Source: MNB

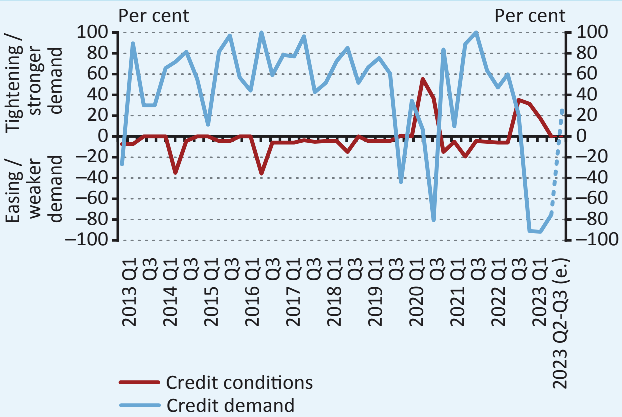
Chart 28
Average contract size and maturity of new housing loans



Note: Maturities are averages weighted by the contracted amount.

Sources: MNB

Chart 29
Changes in credit conditions and demand for housing loans



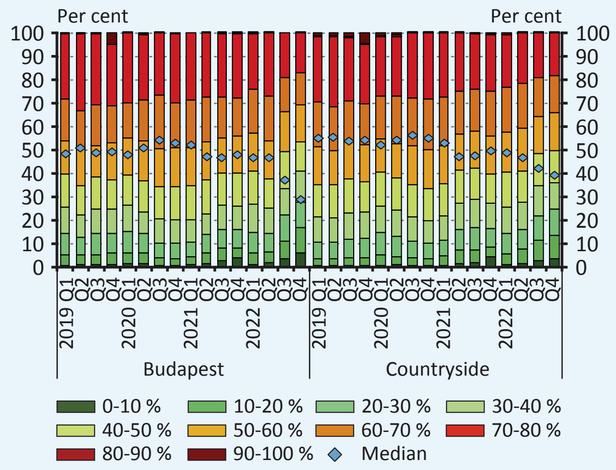
Note: The net ratio is the difference between tightening and easing banks, and between banks indicating stronger and weaker demand, weighted by the market share.

Source: MNB, based on banks' responses

The largest decline was registered in the volume of loans requested for new home purposes. Of the housing loan contracts concluded in February 2023, 68 per cent were for used homes, representing a year-on-year increase of almost 10 percentage points, while their volume declined by 63 per cent in annual terms (Chart 27). The volume of loans drawn down in February for the purchase of new housing shows an even larger, 80-per cent decline, while the volume loan contracts concluded for the construction of new homes fell 76 per cent. This was strongly attributable to the high base resulting from the sharp rise in the FGS Green Home Programme in 2022, tight monetary conditions and the weaker credit demand linked to the decline in housing market transactions. In February, the volume of housing loans for home improvement and modernisation fell short of the year-on-year level by 66 per cent, which also reflected the impact of ending the home improvement subsidy scheme. In February, the number of housing market transactions fell short of the figure registered one year ago by 43 per cent, accompanied by an even larger decline in loan applications. As a combined result of the foregoing, according to our estimates, the ratio of house purchases on credit stood at 32 per cent in February, after an annual decline of 9 percentage points, i.e. the number housing transactions financed by loans may have decreased to a larger degree compared to purely equity-based transactions.

The average loan amount of housing loans shrank significantly. In February 2023, the number of loan contracts concluded both for used and new housing fell substantially in an annual comparison, i.e. by 53 and 69 per cent, respectively. The phase-out of FGS GHP and the tightening monetary conditions impacted not only demand, but also the average loan amount, and in parallel with that, the average maturity: the average loan amount requested in February for the construction and purchase of new housing was HUF 14 million, lower by HUF 9 million than after the surge in GHP, but even in an annual comparison loan amounts are almost HUF 6 million lower, and they fell short by HUF 3 million from the period before the start of FGS. In parallel with this, the average maturity weighted by the contracted amount returned to the levels observed before the start of GHP, i.e. to 20 years (Chart 28). The average loan amount of housing loans for used homes declined to HUF 10 million by February, while the average maturity remained at 19 years.

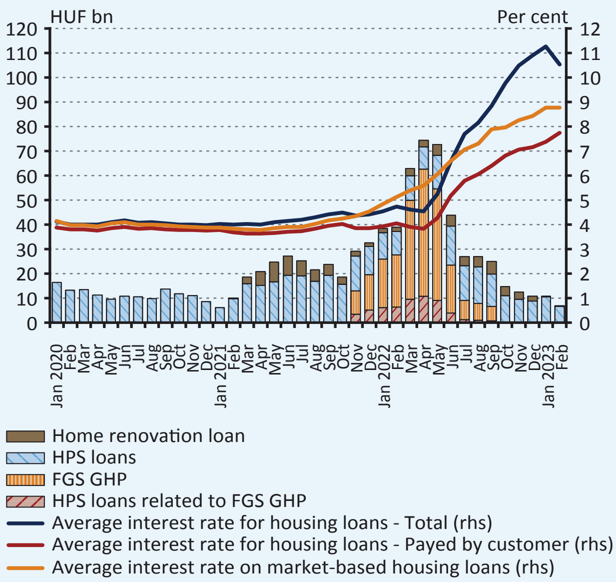
Chart 30
Distribution of new housing loans by LTV ratio



Note: Volume-based distribution.

Source: MNB

Chart 31
Transaction and customer interest rates on newly disbursed housing loans and the volume of housing loans with a subsidised interest rate



Note: Average interest rate weighted by contractual volume. Transaction and customer interest rates include all types of housing loans.

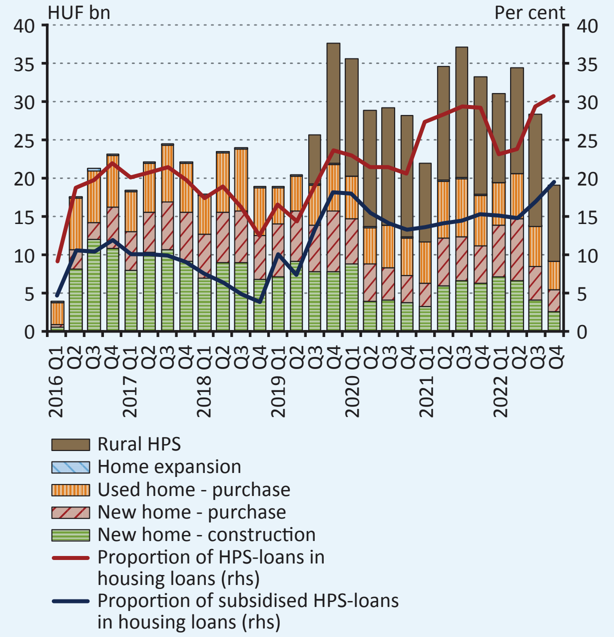
Source: MNB

Banks perceived weaker demand for housing loans in 2023 Q1 as well. According to the responses to the Lending Survey, banks left the conditions of housing loans unchanged in 2023 Q1, while 14 per cent of them, in net terms, raised the minimum levels of creditworthiness. Looking ahead to the next six months, banks do not plan to change the conditions of access to loans in the case of housing loans, and 9 per cent of them even plan to reduce the credit spreads (Chart 29). In the first quarter, a net 76 per cent of respondent institutions perceived a decline in demand for housing loans, while looking ahead they already expect the trends to improve, and a net 27 per cent of them anticipate a pick-up in demand in this area.

In Budapest, the median loan-to-value ratio of new loans declined significantly. Despite the persistent rise in house prices in recent years, the median loan-to-value ratio (LTV) of newly disbursed mortgage loans essentially stagnated until mid-2022. However, from the second half of 2022, due to the tightening of price and non-price conditions on loans, the loan amount applied for by customers steadily decreased, while house prices, i.e. the collateral value, continued to rise. As a result of this, by the end of 2022 the median loan-to-value ratio fell to 39 per cent in the countryside and to 29 per cent in Budapest (Chart 30). Due to the higher property prices, the rise in loan interest rates had a larger crowding-out effect in the capital among borrowers with lower equity than in the countryside, and thus the value of the LTV index declined by 18 percentage points in six months in Budapest.

Interest payable by customers on newly disbursed housing loans continued to rise. In early 2023, the average transaction interest on housing loans declined compared to the January record of 11.3 per cent, while this was fully attributable to the subsidised schemes. This was because the interest subsidy for subsidised housing loans is tied to the yields of the Government Debt Management Agency, which declined at the beginning of the year, but customers continue to pay the statutory interest of 3 per cent on subsidised loans. The average interest rate on newly contracted, market-based housing loan schemes stood at 8.8 per cent in February, after rising by 3.6 percentage points in one year (Chart 31). The role of subsidised loans is gradually decreasing in new disbursements: in February, a state interest subsidy was connected to just 20 per cent of the household loans disbursed, a low unseen since the introduction of the prenatal baby support loans. As a combined result of the foregoing, the average interest rate actually payable by customers rose further, reaching 7.8 per cent in February. On the other hand, this trend may narrow the gap between the transaction and customer interest rates.

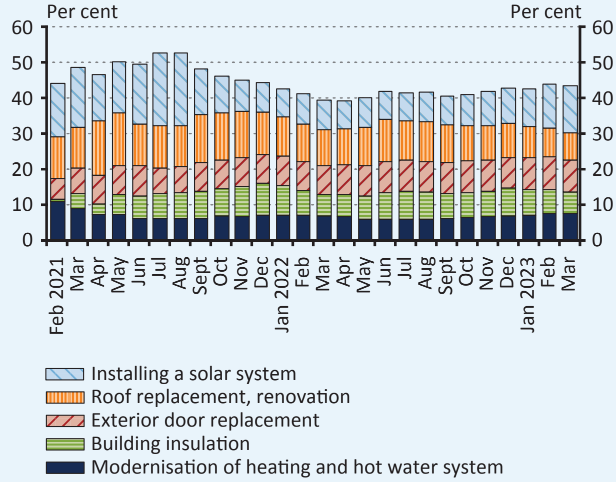
Chart 32
Volume of HPS-contracts by purpose



Note: The columns show the non-refundable HPS subsidies, while the line shows the proportion of subsidised and market-based loans within the housing loan disbursement that were used in addition to the HPS subsidy.

Source: MNB, Ministry of Finance

Chart 33
Utilization rate of home renovation subsidy by energy purposes



Note: Based on the amount of subsidies awarded in the official declaration on providing the cash incentive.

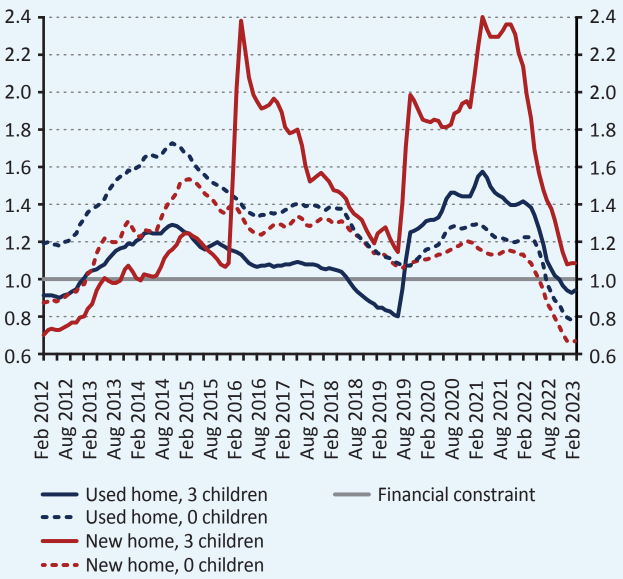
Source: Hungarian State Treasury

In parallel with the contraction of the housing market, the disbursement of HPS also declined. In 2022 Q4, the volume of Home Purchase Subsidy for Families amounting to HUF 19 billion fell short of the year-on-year level by 43 per cent, and it also fell by one third in quarter-on-quarter terms. The only time the volume of subsidies excluding Rural HPS was lower than the current level was when the scheme was launched. The largest, 52-per cent decline was seen in subsidies for the construction or purchase of new housing, in line with the trends observed in lending for housing purposes, while the volume of subsidies contracted for the purchase of used home was 43 per cent lower than one year ago (Chart 32). In 2022 Q4, loans connected to HPS were disbursed roughly in the amount of HUF 46 billion (31 per cent of new housing loans), of which 37 per cent were market-based loans. Rural HPS, available in preferred small settlements, continues to be the highest volume of HPS, accounting for one half of the quarterly volume of subsidies.

43 per cent of the home improvement subsidy was requested for energy efficiency modernisation; this scheme was phased out at the end of December 2022. The home improvement subsidy was available to households with children between January 2021 and December 2022, up to 50 per cent of the improvement costs, but in a maximum amount of HUF 3 million.[7] Under the scheme, non-refundable subsidies were awarded in the total amount of HUF 705 billion, 43 per cent of which was used for the energy efficiency modernisation of the properties (Chart 33). Within this, the largest ratio of applications concerned the replacement or renovation of roofs, often preceded by the installation of a solar system. 10 per cent of the subsidies was spent on these purposes each. Facade insulation and the replacement of external windows to reduce the heat transmission coefficient (u-value) of buildings were also popular renovation purposes, accounting for between 7 and 9 per cent of the public subsidy, while modernisation of heating and hot water systems accounted for 7 per cent of applications. In 2023 Q1, those requesting the subsidy in part or in full for the installation or replacement of solar panels or solar collectors, still had an opportunity to submit their application for subsidy, and thus the share of this category rose from 10 per cent of December 2022 to 13 per cent by the end of March.

[7] The deadline for two specific cases is 31 March 2023.

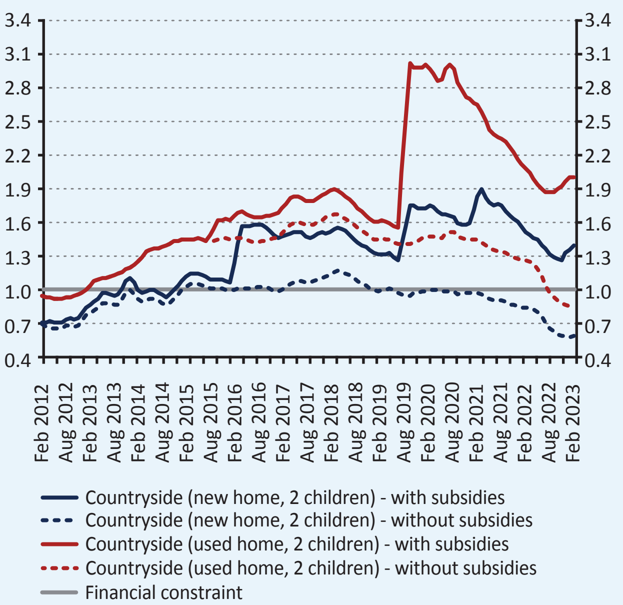
Chart 34
Housing Affordability Index (HAI) in Budapest



Note: The HAI shows the number of times the income of a household with two average wage incomes covers the income required for the financed purchase of an average home. If the value of the indicator is over 1, the family is able to buy a home on credit without overstretching its liquidity. However, if it is below 1, the purchase represents excessive risk and financial burden. It is calculated with a flat of 45 and 75 square metres, for no child or three children, respectively. Except for the interest rate, the parameters of the loan product are constant until maturity. LTV = 70 per cent, PTI = 30 per cent, maturity = 15 years. Net wages used in the calculation of the indicator are seasonally adjusted.

Source: HCSO, NTCA, MNB

Chart 35
Housing Affordability Index (HAI) in the countryside, with and without subsidies



Note: Calculations based on 65-square metre homes.

Source: HCSO, NTCA, MNB

House purchases on credit have become significantly more difficult in Budapest. In 2022 H2, the affordability of home purchases on credit deteriorated further in the capital (Chart 34), which, in the case of used homes, was primarily attributable to the rise in interest rate on loans. Due to the larger increase in the prices of new homes compared to used homes, the affordability of the former deteriorated to a large degree. In Budapest, only households with 3 children, mostly eligible for housing and family subsidies, are able to purchase new housing without overstretching their liquidity, while house purchases on credit for childless households with average income is possible only with an extremely stretched financial situation.

Subsidies play a significant role in the affordability of the housing market in the countryside. In the countryside, wages grew faster than house prices, which was able to improve the affordability of the housing market for families with children in the last months of 2022 and early months of 2023, but this was also attributable to the increasing role of interest subsidised loans (Chart 35). Due to the rise in market interest rates on loans, without family subsidies the purchase of not only a new, but also of a used home on credit would overstretch the liquidity of families with two children and two average wage incomes. However, in the countryside, families eligible for housing and family subsidies may be able to purchase even a new home without overstretching their finances, and thus housing affordability may still be deemed favourable there in a historical comparison and also compared to properties in Budapest. The opinions of the key actors of the housing market on the situation and expected development of the housing market are detailed in Box 2.

Box 2
Key messages from the 2023 spring meeting of the housing market section of the housing and real estate market advisory board (litt)

At its meeting held in March 2023, the Housing and Real Estate Market Advisory Board (LITT) discussed the current housing market situation and trends. The Board paid special attention to the trends in housing demand, housing developments and the financing prospects.

Housing market situation

According to the LITT members' consensus opinion, the key objective is to prevent a halt in the construction of new housing and in home improvements, and they believe that this calls for contribution from all actors, i.e. developers, the construction industry, the state and the banking sector. A strong decline has been observed both in the used and new home market. Market participants had seen a 50–70 per cent fall in demand in the new housing market up to February 2023, and the downward trend was continuing. As a result of the weakening demand, a 70-per cent decline had been registered in the launch of new housing developments. Market participants believe that newly built homes play a vital role in family policy, population policy and urban policy. If the quality of newly built homes is good, it has a favourable impact also on the market of used homes in the long run, as in 1–2 decades the supply of used homes will be also of high quality. At present, there is a shortage of the latter in the market of used homes, since during the global economic and financial crisis, between 2008 and 2013 the construction of about 100,000 new homes failed to happen in Hungary.

Market experts stated that in previous years the average number of new homes sold per quarter in Budapest was 1,800, while in 2022 Q4 just 700 new homes were sold, representing a decline of 60 per cent and corresponding to the level of sales seen in 2009. In connection with this Members noted that compared to 2009 the situation is better, as the population has no foreign currency debt, there is no significant economic downturn and employment is at a high level. The experts, who also have information on Polish and Romanian housing market trends, believe that a rise in housing demand was perceived in those markets at the end of 2022 already, after the low point in the third quarter.

The Members believe that of the key factors determining the housing market situation the picture was positive in March 2023 only in three areas, i.e. the high employment, the preferential VAT on housing and the high number of building permits. All other housing market factors were negative: falling real wages, the high inflation environment, the slowdown in GDP growth, the high level of interest rates on project financing and housing loans, rising home construction costs, the number of dwellings under construction and the low renewal rate. LITT Members believe that the high number of building permits is of technical nature, as it was generated by the regulatory uncertainty of recent years related to the preferential, 5-per cent VAT rate on housing. Over the past five or six years, the idea of cancelling the preferential VAT rate on housing has come up every two years in Hungary, which – as experts noted – prompted developers to curb production significantly in the periods of uncertainty, and to utilise their capacities in full in the preferential periods. In addition to the falling demand, the benefit of the current high number of building permits is that the development market is well prepared to launch new projects. Market participants unanimously agreed that family policy measures tied to deadlines may also have undesirable impacts on the market, generating extreme fluctuations in demand instead of supporting steady demand.

Housing developments

Starting from 2015, residential construction was characterised by continuously rising costs, but the technical content of the flats also improved significantly. Nowadays, newly built homes are highly energy efficient, which has a positive impact on reducing energy dependency and emissions. In 2015, construction was unprepared for the housing market boom and it practically had to rebuild domestic capacities. Market participants believe that the procyclical government investment policy resulted in a rise in construction costs. They stated that in periods of boom it should be taken into consideration that a simultaneous surge in private and public demand for construction may generate a significant increase in costs, which may filter through to house prices.

Experts are of the opinion that the most important question related to the housing market and housing developments is how to bring buyers back to the market. The availability of affordable loans is key to this and the affordability of loans is more important for the maintenance of demand than subsidies. Market experts support the idea of helping first-time homebuyers, but LITT Members feel that, in addition to home purchase subsidies, consideration should be also given to alternative solutions (subsidies for rental flats, support for self-financing, “starter flat” programme, shared property schemes). The subsidised home purchase programme being introduced in Poland (First Apartment Programme) was mentioned as an example from the CEE region, as part of which housing loans will be available at an interest rate of 2 per cent in the first 10 years, instead of 9 per cent, i.e. the interest rate prevailing in Poland in March 2023. According to the plans, the programme will last until 2027 and will be available for first-time homebuyers below the age of 45. The Polish programme will also include a savings scheme in addition to the subsidised loan. The state will grant a subsidy to those accumulating regular savings and spending the saved amount on house purchase at the end of the savings period. In Hungary, the previous building society scheme mostly supported loan instalments; however, experts are of the opinion that consideration should be given to developing a scheme that effectively encourages advance savings.

Market participants believe that with the introduction of measures to stimulate housing demand, the development side would be able to keep up with the increasing demand on the supply side. However, in the absence of demand, housing development for building up reserves is not cost-efficient, because with loan interest rates over 15 per cent, keeping the homes in reserve for one year already generates a loss on the project. According to the expectations of the National Federation of Hungarian Building Contractors (ÉVOSZ), in 2023 a maximum of 18,000 new flats will be completed, and the number of home improvements will not exceed 180,000 compared to the typically 200,000-220,000 home improvements in recent years.

The industrialisation programme underway in Hungary also has substantial impact on the local housing markets, as new housing developments are needed to house the labour force of the factories to be established. Market experts believe that in this area it is worth making enterprises interested in supporting home purchases by employees, which could also facilitate labour force retention.

Financing

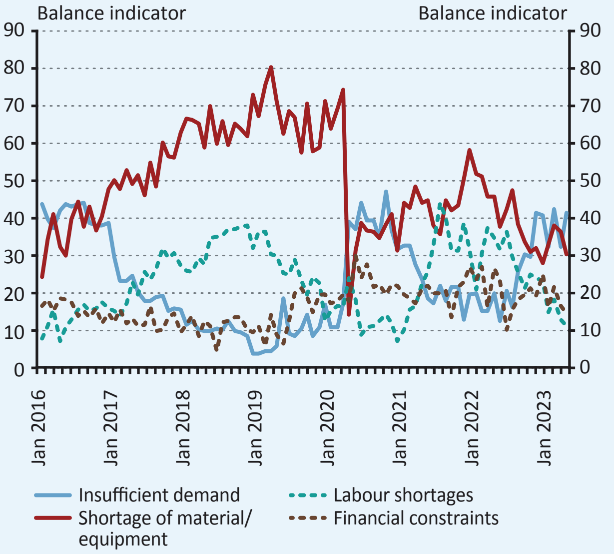
Based on the declining housing demand and the uncertain cash flows of housing projects, banks are also adjusting to market developments, and thus strong activity by banks in project financing cannot be expected in 2023. Experts believe that – in the current monetary policy environment – the main challenge in 2023 for the construction industry will be posed by financing, rather than by tight capacities. In the case of the financed housing projects, due to the prohibition on utilising buyers’ funds, developers are forced to rely on loans at high interest rates. Market participants believe that developments realised without loan financing continue to have an advantage in this respect, but buyers are exposed to higher risk in these projects. As regards the financing of housing developments, market participants mentioned Poland as a good example, where buyers pay the purchase price in several (even in ten, if necessary) equal instalments, aligned with the construction phases, and banks also already make disbursements during the construction to those buying on credit. Developments are financed by the buyers on a continuous basis, project loans are necessary up to the amount of the individual construction phases, which are immediately repaid from the buyers’ contribution received. This system is supported by a complex legislative background combined with a collateral scheme, where it is not a problem if the project and the buyers are financed by different banks. Experts believe that this scheme may serve as a good example for Hungary as well.

4 Supply of new homes

Insufficient demand represents an increasing constraint for the Hungarian construction industry, while labour shortage continues to hinder the launch of new projects. Additionally, interest rates on housing project loans also rose significantly in 2022, further curbing willingness to undertake developments in the uncertain economic environment. 40 per cent of banks perceived a decline in demand for residential property project loans in 2023 Q1, and looking ahead an increasing proportion of them anticipate a further decline in this area. The number of completions rose moderately in 2022, increasing by 3.2 per cent compared to previous year, which was primarily attributable to the completion of detached houses in the countryside. On the other hand, in a European comparison, the renewal rate of the housing stock remains low. The number of dwellings completed in 2023 Q1 fell significantly. There was a decline in building permits issued for detached house constructions, while home construction planned in multi-unit buildings registered significant growth in 2022. However, the latter was strongly influenced by the availability of the preferential, 5-per cent VAT rate on housing for a limited period. In 2023 Q1, there was also a decline in building permits. The number of dwellings included in the building permits fell to a level last seen during the public health restrictions related to the coronavirus pandemic.

In 2023 Q1, the number of dwellings in condominium projects under development in Budapest rose 25 per cent in annual terms. This growth, however, was mostly connected to the stock that had already obtained building permits, but construction had not commenced yet. 32 per cent of the new dwellings under development were for sale in the first quarter, reflecting stagnation in the supply of new homes in Budapest. In the countryside, more moderate sales and a higher number of dwellings coming to market were able to increase the available supply. The number of new homes sold in Budapest declined substantially in the first quarter of 2023, which also curbed the rate of price increases, resulting in an average quarterly price increase of 0.7 per cent, compared to 3.6 per cent registered in 2022 Q4. Following an annual rise of 20 per cent, the average price per square metre of newly completed homes amounted to HUF 1.42 million in Budapest, and unit prices in new home projects around Lake Balaton were even higher.

Chart 36
Constraints on construction output



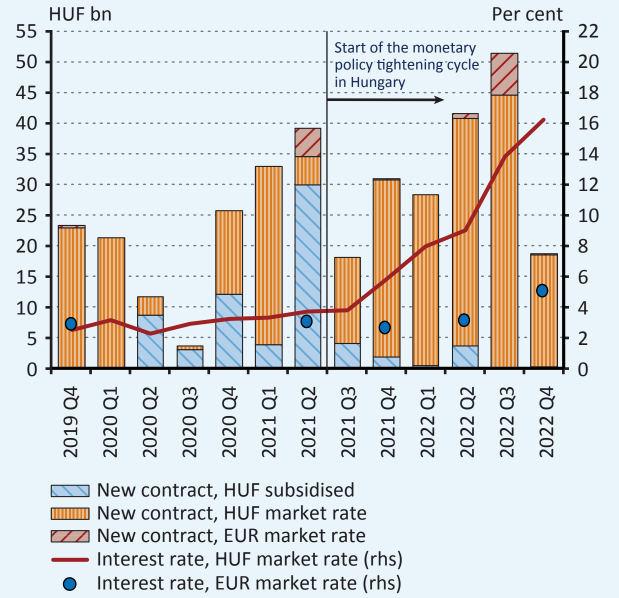
Note: Seasonally adjusted series.
Source: European Commission

4.1 SHARP DROP IN WILLINGNESS TO LAUNCH RESIDENTIAL DEVELOPMENTS

In April, insufficient demand hindered the performance of construction companies the most (Chart 36). In recent months, around 30–40 per cent of construction companies were hindered by labour shortage and insufficient demand. Shortage of material and financial constraints represented constraining factors in production for 14 per cent and 17 per cent, respectively, of the construction companies on average in the period January–April. Constraints from the shortage of material have eased quite a bit, while insufficient demand has become a significantly greater constraint since 2022 H2.

Interest rates on housing project loans rose significantly in 2022, which further curbs willingness to launch developments in the uncertain economic environment. Credit institutions concluded housing project loans for the amount of HUF 139.5 billion in 2022, with this figure

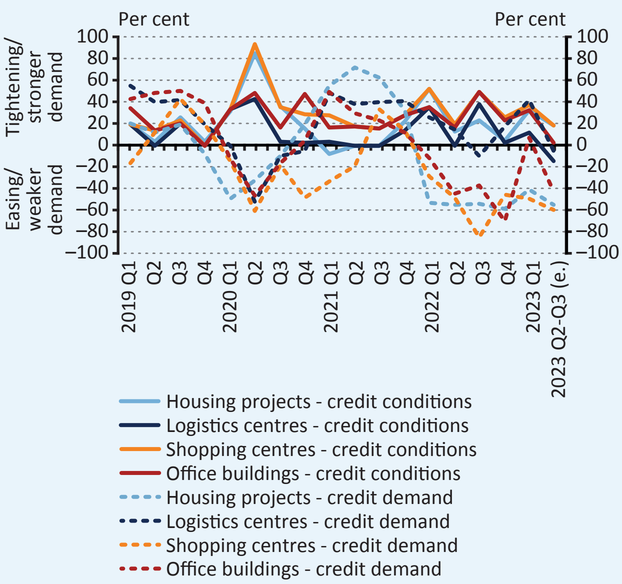
Chart 37
New housing project loan contracts of credit institutions and average transaction interest rate on new housing project loans



Note: Average transaction interest rate weighted by the contracted amount. Subsidised housing project loans belong to the following schemes: Funding for Growth Scheme, Széchenyi Investment Loan (Plusz, Go!, Max).

Source: MNB

Chart 38
Changes in credit conditions and demand for commercial real estate loans



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

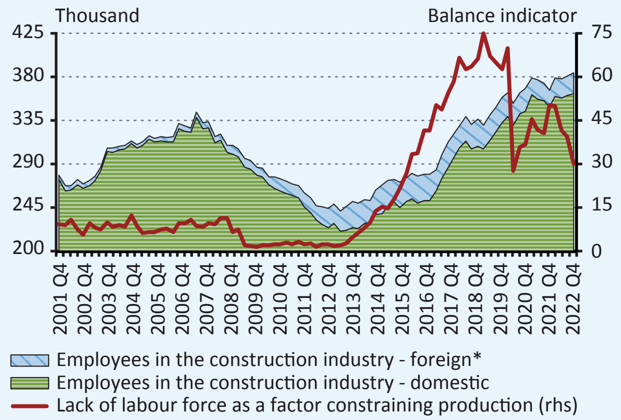
Source: MNB, based on banks' responses

exceeding the volume contracted in 2021 by 15.5 per cent. However, the volume of new contracts concluded in 2022 Q4 fell 39.8 per cent in year-on-year terms (Chart 37). Looking at the composition of project financing contracts, the ratio of subsidised loans fell to 3 per cent in 2022, while this ratio was 37.9 per cent and 32.5 per cent in 2020 and 2021, respectively, mainly due to loan contracts concluded under the Funding for Growth Scheme. Since mid-2021, in parallel with the tightening monetary conditions, interest rates on housing project loans increased significantly. The largest increase was registered in interest rates on non-subsidised, HUF-denominated loan contracts, which amounted to 16.2 per cent on average in the case of new housing project loan contracts concluded in 2022 Q4. The interest rate on euro loans, used less frequently by credit institutions in their housing project financing activity, rose from levels of 2.5–3 per cent registered at end-2021/early 2022 to 5 per cent by the end of 2022. In conjunction with low demand and uncertain economic prospects, high forint interest rates contribute to making housing developments more expensive, thereby further reducing willingness to launch developments.

In 2023 Q1, banks tightened standards for commercial real estate loans. Based on the responses to the Lending Survey, due to the complex challenges seen in the commercial real estate market in 2023 Q1, one third of banks tightened standards in all segments of commercial real estate loans, which may continue in the next six months as well, except for logistics centres and office buildings (Chart 38). In the first quarter, 40 per cent and 50 per cent of the respondent institutions perceived a decline in demand for housing project loans and shopping centres, respectively, while 42 per cent and 7 per cent of them reported increasing demand for loans to finance logistics centres and office buildings, respectively. On the other hand, looking ahead to the next half-year, banks anticipate weaker credit demand in all commercial real estate segments.

The number of employees in the construction industry rose slightly in 2022. Following the 2008–2009 crisis, the number of employees in construction declined and, in addition to this, a large number of construction workers went to work abroad. Construction employment then gradually increased in parallel with the start of the new housing market cycle. Both in 2022 as a whole and in the fourth quarter, the number of domestic construction employees increased in an annual comparison and was at a high level, i.e. around 360,000 (Chart 39). On the other hand, in parallel with the downturn in construction these capacities may also disappear, which once again may pose a risk in periods of recovering development.

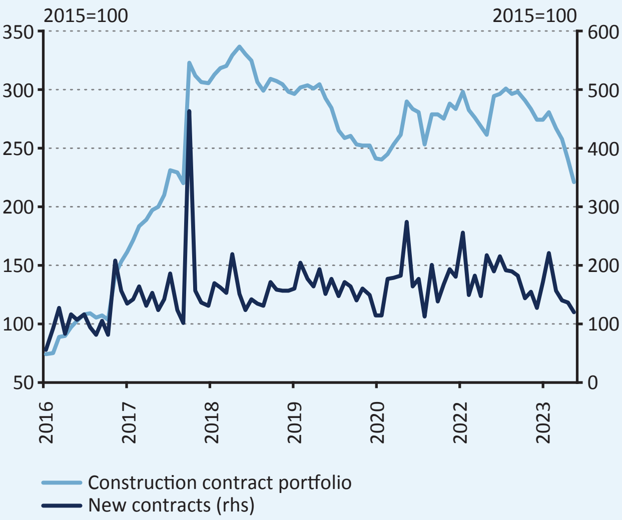
Chart 39
Number of employees in the construction industry



*Note: *Based on employees with households in Hungary.*

Source: HCSO, MNB, European Commission

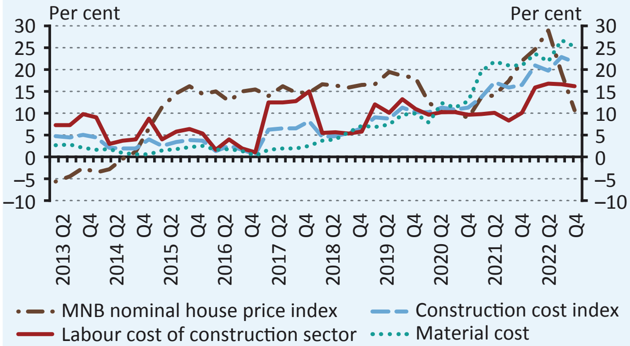
Chart 40
Development of construction contract portfolio and new contracts



Note: Based on seasonally adjusted data.

Source: HCSO, MNB

Chart 41
Annual change in home construction costs and nominal house prices



Source: HCSO

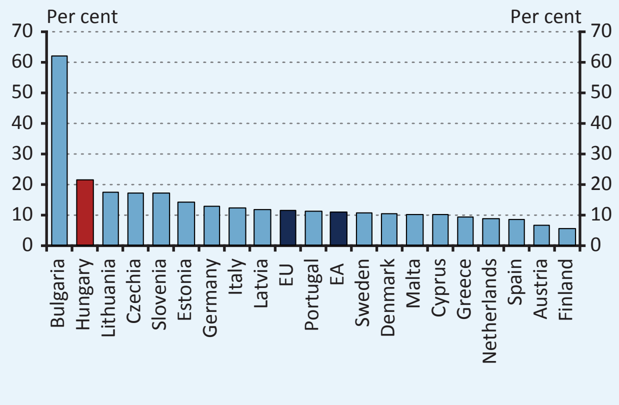
Construction performance and outstanding contracts both declined significantly early this year. In 2022 Q4, construction output stagnated overall, but then declined by 3.6 per cent and 11.8 per cent in January and February, respectively, in a year-on-year comparison. Looking ahead, a further contraction of construction output is implied by the fact that the volume of outstanding construction contracts in February fell short of the year-on-year figure by 25.2 per cent (Chart 40). The volume of outstanding contracts for the construction of buildings and of other structures declined by 13.6 per cent and by 33.1 per cent, respectively, in one year. As regards home construction, the decline in public investments may free up construction capacities. According to our expectations, the volume of public investments will decline each year between 2023 and 2025. On the other hand, the extension of the preferential VAT on housing until 2028 for buildings that obtain the building permit by 2024 may continue to support growth in residential construction.

The growth rate of home construction costs tapered slightly in 2022 Q4, but remained high in an EU comparison. The annual growth rate of the home construction cost index in Hungary fell from 22.8 per cent registered in 2022 Q3 to 21.6 per cent in 2022 Q4 (Chart 41). Within that, material costs rose to the largest degree, by 25.2 per cent, while construction labour costs increased by 16.2 per cent, in year-on-year terms in 2022 Q4. Based on the available data, the rise in home construction costs was the second highest in the EU. Home construction costs rose in the European union and in the euro area by 11.5 per cent and 11.1 per cent on average, respectively, in an annual comparison (Chart 42). Looking ahead, in line with the slowdown in construction, the growth rate in construction costs is expected to continue declining in Hungary.

4.2. No increase expected in the number of new home construction in the short run

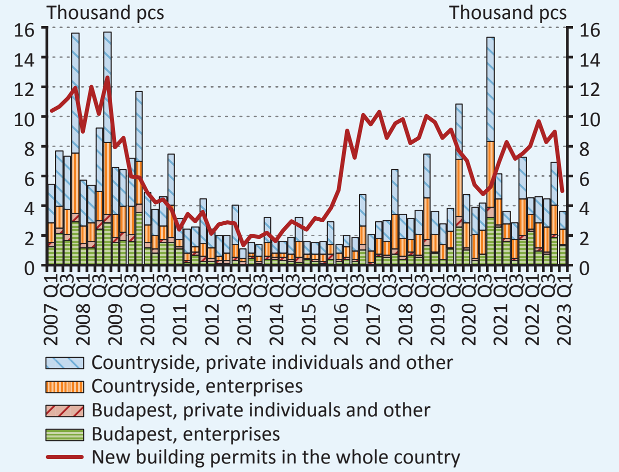
Due to the construction of detached houses in the countryside, the number of completed dwellings increased moderately in 2022, followed by a sharp drop in 2023 Q1. In 2022, 20,540 newly built residential property received occupancy permit in Hungary, exceeding the prior-year figure by 3.2 per cent, but falling 27.2 per cent short of the record high number of completions seen in the current economic cycle in 2020. The moderate rise in the number of dwellings completed in 2022 was driven by completions of new residential properties (detached houses) commissioned by natural persons in the countryside, where the number of occupancy permits rose 19 per cent compared to 2021. In 2023 Q1, there was a year-on-year decrease of 20.2 per cent in the number of completed dwellings at the national

Chart 42
Annual change in home construction costs in EU countries in 2022 Q4



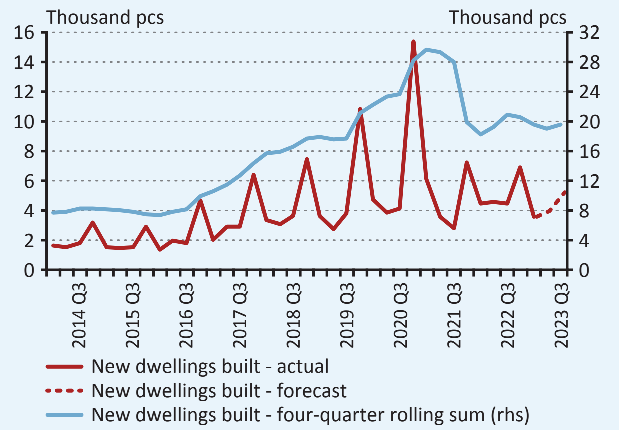
Note: Fourth quarter data are not available for some countries.
Source: Eurostat

Chart 43
Distribution of new completions by location and developer



Source: HCSO

Chart 44
Forecast for the number of homes with occupancy permits



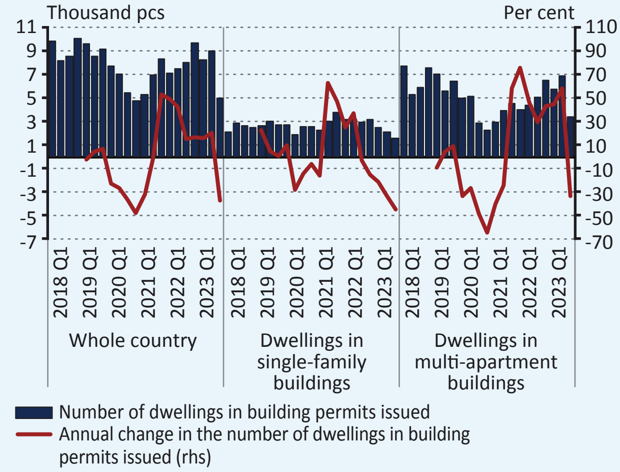
Source: HCSO, MNB

level (Chart 43). This fall is attributable to homes built in Budapest in business projects, which dropped by 44.6 per cent, while in the countryside the number of dwellings in business projects rose by 7.5 per cent, the number of properties the construction of which was commissioned by natural persons in Budapest and in the countryside (detached houses) grew by 5.7 per cent and 4.3 per cent, respectively.

No growth may be expected in the number of new completions at an annual level either. According to our forecast, in the first three quarters of 2023 the completion of new homes may fall by 7 per cent in total, in a year-on-year comparison (Chart 44). The seasonal fluctuation in new completions in 2022 significantly fell short of the typical historical rate, and the potential persistence of this change makes the early statistical forecasting of completions in 2023 Q4 extremely uncertain. The significant fall in housing market demand observed last year and the deterioration in housing affordability may imply a decline in completions by the end of this year.

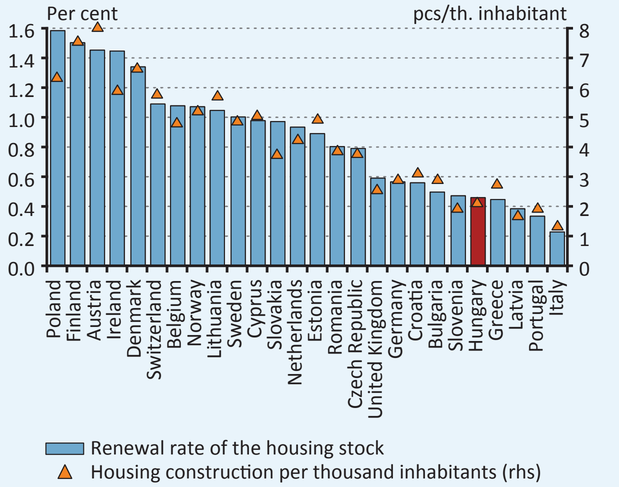
In 2022, the number of dwellings included in building permits issued rose significantly, while the figure for 2023 Q1 fell to the level seen during the pandemic. In 2022, construction permits were issued for 35,002 new homes, representing growth of 16.9 per cent versus 2021 (Chart 45). The rise in the number of dwellings included in building permits is attributable to home constructions in multi-unit buildings, where the number of home constructions permitted in 2022 increased by 44.4 per cent compared to one year ago. The number of dwellings to be built in single-unit buildings (detached houses) fell 18.3 per cent, foreshadowing a decline in home construction by natural persons. In 2022, building permits were issued for 13,399 new homes in Budapest, reflecting a 144-per cent increase in an annual comparison. This strong rise was partly attributable to the limited period of the preferential VAT on housing and partly to the low base from 2021, as the number of dwellings included in building permits in Budapest fell significantly during the pandemic, in 2020–2021. On the other hand, after an increase in the permitted number of dwellings in 2022, in 2023 Q1 building permits were issued for 37.6 per cent fewer homes than one year ago. In the first quarter, building permits were issued for the construction of 3,613 flats nationwide. Since 2016, a figure lower than this was only observed in 2020 Q3, the period most affected by the pandemic and the related public health restrictions. In single-unit and multi-unit buildings, the number of permitted dwellings fell 45.2 and 33.2 per cent, respectively, in year-on-year terms, in 2023 Q1. By contrast, in Budapest the number of dwellings included in building permits for three- or multi-unit properties

Chart 45
Number of dwellings included in residetial building permits issued and annual change of it by type of permit



Source: HCSO

Chart 46
Annual renewal rate of the housing stock and home construction per thousand inhabitants in Europe



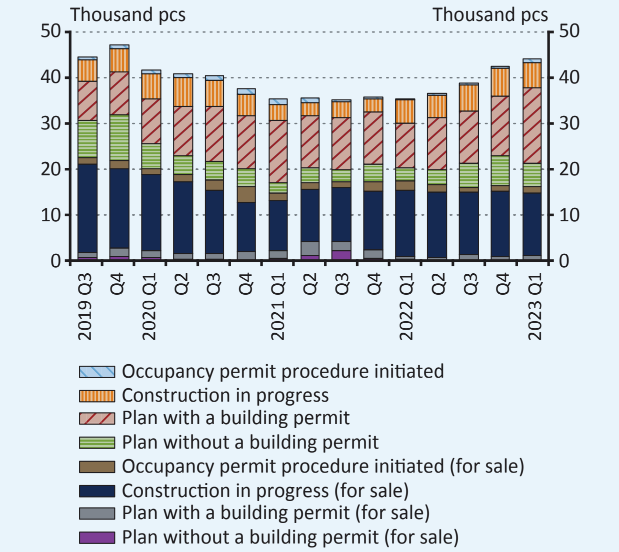
Note: The reference year is 2019 for Cyprus, 2020 for Belgium, the United Kingdom, Italy and Switzerland, 2021 for Austria, Croatia, Germany, Slovenia and Sweden, and 2022 for the other countries.

Source: ECB, national statistical offices, MNB

declined only moderately, falling by 7.5 per cent in the same period.

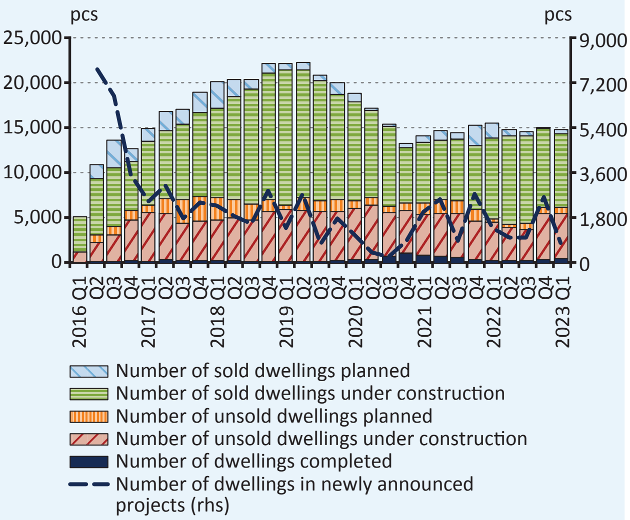
In Europe, home construction as a percentage of the stock of dwellings was mostly similar to 2021. The Hungarian renewal rate is situated in the bottom quarter of the international ranking. In 2022, 20,500 homes received an occupancy permit in Hungary, corresponding to 0.45 per cent of the residential properties in Hungary, and in terms of population, two homes per thousand inhabitants were built (Chart 46). This level of home construction is rather low by European standards, putting Hungary in the bottom quarter of the home construction ranking. It is the fifth lowest in terms of the stock of residential properties as well as in terms of homes completed per thousand inhabitants. Poland leads the ranking based on the stock, with 1.57 per cent of the housing stock built in 2022, but favourable ratios above 1 per cent were also registered in Austria, Belgium, Ireland, Lithuania, the Scandinavian countries and Switzerland. In 2022, as a percentage of the stock of dwellings, the volume of home constructions was similar to that of previous year in most European countries, while construction activity in Ireland and Lithuania deserves special attention: the renewal rate in the former rose by 0.44 percentage point to 1.43 per cent, while in the latter it rose by 0.32 percentage point to 1.04 per cent.

Chart 47
Housing stock under development in Budapest



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

Chart 48
Availability of homes in new projects under development and sale in Budapest and the number of new announcements of dwellings



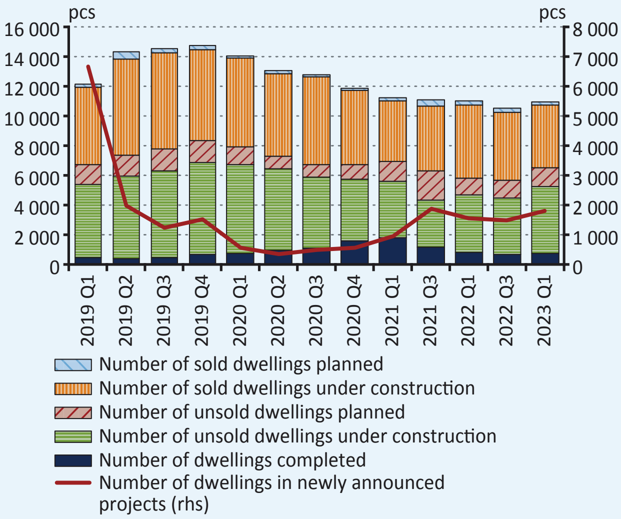
Note: Based on projects for at least 4 new dwellings in Budapest.
Source: ELTINGA – Budapest Housing Market Report

4.3 DEVELOPERS ADJUST THE NUMBER OF NEWLY LAUNCHED PROJECTS TO DECLINING DEMAND

The number of dwellings in residential property projects that obtained a building permit has increased considerably. In 2023 Q1, new condominium projects including 44,300 flats in total were under development (at least the procedure to obtain the building permit had commenced) in Budapest, representing year-on-year growth of 25 per cent and quarter-on-quarter growth of 4 per cent. 51 per cent of the homes under development are still in the planning phase, while the construction of 44 per cent of them has already commenced (Chart 47). At an annual level, the highest growth, at about 70 per cent, was achieved by the stock where the building permits have already been obtained but construction has not started yet. In the capital, this involves 37 per cent of the homes under development. By contrast, the number of dwellings under construction has not changed in year-on-year terms. Developers are likely to make efforts to obtain building permits during the period that ensures them a 5-per cent VAT rate on housing, but in the current uncertain economic environment they are postponing the launch of the projects. On the other hand, as a result of this, the supply of new homes may be able to respond faster to a renewed recovery in demand.

New home supply in the capital stagnated in 2023 Q1. In 2023 Q1, 32 per cent of the total stock under development, i.e. projects including about 14,100 new dwellings, were for sale in Budapest, reflecting quarter-on-quarter and year-on-year declines of 3.3 per cent and 6.6 per cent, respectively (Chart 48). The current level of the stock of dwellings under development in the market is significantly below the record high level seen in 2019. Supply of new homes in the capital stagnated compared to the previous quarter, while the unsold stock available for purchase included 6,203 flats in 2023 Q1. In the period under review, 839 newly completed homes were put up for sale in Budapest, a decline of 68 per cent compared to the number of dwellings coming to market in the previous quarter and falling short of the quarterly average of 2021 by 59 per cent.

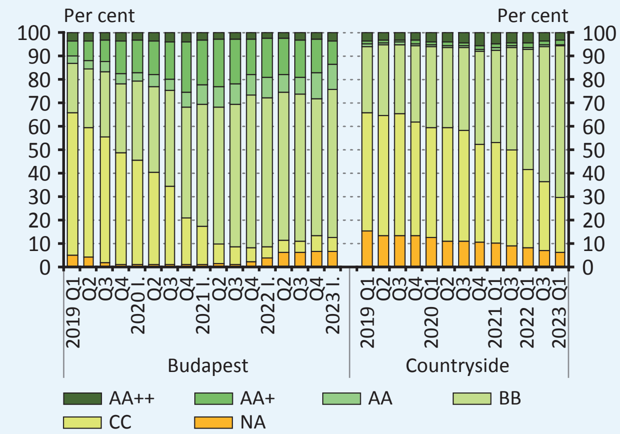
Chart 49
Number of dwellings in new condominium projects for sale in the countryside



Note: Based on condominium developments comprising more than 10 dwellings.

Source: Eltinga – Countryside Housing Market Report

Chart 50
Distribution of new dwellings under development and for sale by estimated efficiency rating



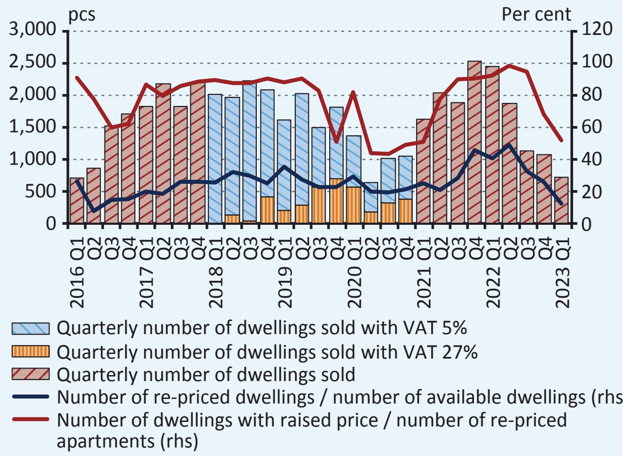
Note: Based on condominium developments comprising more than 10 dwellings in rural areas and more than 4 dwellings in Budapest. In the case of renewable energy assuming energy-efficiency category BB or – in the absence of that – CC, if no energy-efficiency certificate is available.

Source: ELTINGA – Budapest Housing Market Report, Countryside Housing Market Report, MNB calculation

The more moderate sales of new homes increased available supply in the countryside. In 2023 Q1, projects including 10,179 flats were under development and for sale in the countryside, which roughly corresponds to the stock registered one year ago. In 2022 Q4 and 2023 Q1, 1,270 new condominium flats were sold in total in the countryside, showing a year-on-year decline of 53 per cent. As a result of this, following annual growth of 12 per cent, the unsold supply amounted to 6,451 flats in March 2023 (Chart 49). This was also supported by the fact that 1,807 flats were put up for sale on the market in the first quarter, exceeding the number of available homes announced in the same prior-year period by 15 per cent. The highest number of homes under development are included in projects in Somogy county, with roughly 2,000 flats, followed by the number of dwellings included in projects under construction in Pest and Győr-Moson-Sopron counties with roughly 1,600 and 1,400 homes, respectively.

The ratio of more modern properties is higher in new home developments in the capital than in the countryside. According to our estimates, the energy-efficiency category of about 87 per cent of the homes under development and for sale in Budapest in 2023 Q1 was BB or better, while in the countryside 70 per cent of the new homes belonged to this category. However, over the past two years a significant improvement was observed in projects in the countryside, as the ratio of homes complying with the nearly-zero energy requirement (BB) rose by 14 percentage points year on year and by 25 percentage points compared to developments two years ago, in parallel with a decrease in the ratio of the modern (CC) category (Chart 50). In the capital, the higher unit price of newly-built homes may generate demand for higher levels of energy efficiency in residential properties, and thus development projects of properties with better than the minimum statutory requirements are also underway. In 2023 Q1, 24 per cent of the homes under development and for sale in Budapest received an energy-efficiency rating better than the nearly-zero energy consumption requirement, while in the countryside merely 6 per cent of the dwellings achieved this.

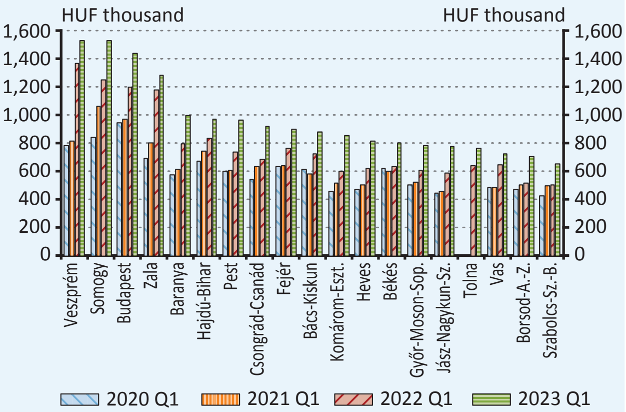
Chart 51
Number of new homes sold in Budapest, and ratio of repricing within the advertised new homes



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

Source: ELTINGA – Budapest Housing Market Report

Chart 52
Development of the average square meter price of new dwellings



Note: Based on condominium developments comprising more than 10 dwellings in rural areas and more than 4 dwellings in Budapest.

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

The declining number of transactions also curbed the degree of price increases in the market of new homes in Budapest. The number of new homes sold in Budapest dropped significantly in 2023 Q1, with merely 712 new condominium flats sold (including pre- and final contracts), falling 71 per cent and 34 per cent short of the year-on-year and quarter-on quarter sales figures, respectively. These significant declines are partly attributable to the high base resulting from the Green Home Programme, while the uncertain economic outlook, tighter monetary conditions and high house prices relative to earnings also contributed to the low number of sales and purchases. In the quarter under review, the ratio of homes repriced due to falling demand fell from 25.8 per cent of previous quarter to 12.3 per cent within dwellings unsold, and within the repriced homes the ratio of those the price of which was raised declined further, from 68.2 per cent to 51.6 per cent (Chart 51). During the quarter, the price of 368 newly-built homes (48.4 per cent of the repriced flats) was reduced. In 2023 Q1, prices were raised on average by 0.7 per cent within repriced homes, marking a major drop compared to the average repricing of 3.6 per cent seen in the previous quarter.

The unit price of new homes registered double-digit growth at the national level in 2023 Q1. The unit price of homes announced in new housing projects in 2023 Q1 was the highest in Veszprém county (north shore of Lake Balaton), where the average asking price per square metre was HUF 1.53 million. In an annual comparison, the average price per square metre rose by 12 per cent in this county, while compared to half a year ago there was already a fall of 8 per cent in the price dynamics (Chart 52). Price levels are also similar in Somogy county, mostly comprising projects around Lake Balaton, also with an average price per square meter of HUF 1.53 million. This is followed by Budapest, where – in conjunction with annual growth of 20 per cent – the average price per square metre for newly built homes is HUF 1.42 million. With the exception of Zala county, double-digit growth was seen nationwide, with Komárom-Esztergom county registering the largest, 42-per cent price increase, while in Szabolcs-Szatmár-Bereg and Borsod-Abaúj-Zemplén counties, which are characterised by the lowest prices per square metre, the unit price of new homes also rose 30 and 35 per cent, respectively.

Count István Széchenyi

(21 September 1791 – 8 April 1860)

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

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

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

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

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