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Hungary economy briefing:

Housing market in Hungary

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Housing market in Hungary

The Hungarian housing market has developed rapidly in recent years. The booming market has been fueled by favorable financial and economic conditions in the economy for many years. At the same time, soaring inflation and rising interest rates have changed the environment for this development in 2021 and 2022. Needless to say, in addition to rapid GDP growth, the war in Ukraine and supply chain bottlenecks that forced the central bank to raise policy rates are among the causes of inflation. The briefing looks at how the Hungarian housing market and mortgage lending have adapted to the changing economic conditions

Introduction

Over the last 7 years, real estate prices in Hungary have continued to rise. The last time we observed falling or stagnant prices on this market was the period between 2008 and 2013, when prices on the housing market collapsed in the wake of the global financial market. During this period, prices on the market fell by around 20-25 percent, and the defaulted foreign currency loans continued to cause problems for decision-makers in the Hungarian economy for several years.

Since 2013, prices in the housing market have increased, which can be explained by several factors:

- Rapid GDP growth led to rising real wages, which boosted demand in this market segment,
- The central bank began cutting interest rates (6 percent) starting in late 2021, and the cycle bottomed out in mid-2021, when the policy rate was 0.6 percent.
- The government launched several programs to boost demand. With these programs, the government targeted families raising children.
- The Covid 19 pandemic affected the housing market through three channels:
- The market for rented commercial properties collapsed due to the pandemic, as employers in the tourism and hospitality industries closed or went out of business.
- Due to the collapse of tourism, Airbnb hosts affected by the Covid 19 pandemic were forced to sell their properties.

The economic uncertainty caused by the pandemic caused potential buyers to postpone the purchase of real estate. There is a significant difference between the two periods (2008-2013) and (2020-2021) when prices were significantly affected by external factors. Between 2008 and 2013, the decline in real estate prices was significant, while after Covid-19, prices tended to just stagnate and did not fall. The other difference is that the upheaval of the market was caused by policy mistakes - those of the FED, the neoliberal policies of many years and inappropriate policy decisions of the Central Bank between 2002 and 2012 and the Hungarian government between 2002 and 2010. At the same time, the development of the housing market in 2020 and 2021 was caused by external events - the pandemic and the closures - which cannot be influenced by economic development policies.

Housing prices after Covid-19 pandemic – a European comparison

According to Eurostat, Hungarian house prices have also risen rapidly compared to other EU countries. Between 2015 and 2021, Hungarian prices increased by 118 percentage points, while the EU average was "only" 40 percentage points. Even if we include other European countries, prices increased faster than in Hungary only in three other countries (Turkey, Iceland, Estonia). (See table 1!). If we look at the delated house price index, Hungary ranks first. We must add, however, that there are no data for Turkey and Iceland in this data set, yet Hungary outperforms Estonia.

Deflated house price index – according to Eurostat definition – “This indicator therefore measures inflation in the house market relative to inflation in the final consumption expenditure of households and NPISHs. Eurostat HPI captures price changes of all residential properties purchased by households (flats, detached houses, terraced houses, etc.), both new and existing, independently of their final use and their previous owners.”

Table 1. House price index in 2021 Q3 (20215=100)		
	House price index	Deflated house price index
Turkey	527.62	-
Iceland	261.16	-
Estonia	256.31	131.62
Hungary	228.40	166.52
Luxembourg	223.81	156.52
Latvia	214.46	140.00
Czechia	210.70	160.56
Austria	208.92	137.51
Lithuania	208.26	141.86
Germany	193.10	141.19
Sweden	187.76	121,57
Norway	182.44	-
Slovakia	168.71	137.70
Portugal	163.91	154.74
Netherlands	157.13	146.77
Malta	152.68	126.36
Denmark	148.19	130.41
Poland	146.91	128.61
Ireland	146.48	132.87
Bulgaria	146.00	130.48
European Union	141.60	-
Belgium	141.04	115.51
Euro area	137.58	-
Euro area	137.32	-
Slovenia	136.66	140.13
Croatia	131.25	132.78
France	127.90	116.88
Finland	119.16	104.67
Romania	115.03	109.60
Spain	100.76	124.45
Cyprus	91.48	101.49
Italy	88.10	98.81

Looking at the factors that explain the boom in the housing market between 2013 and today - rapid GDP growth, low interest rates, government subsidies - only one seems certain: relatively high GDP growth will continue to support the development of the housing market, but the MNB started to raise interest rates last summer, which will reduce the volume of mortgage loans. As for the government subsidy factor, it is not certain that the government can continue the policy of strong support in this segment, and the main subsidy schemes are about to expire, which means that this part requires government decisions. (The subsidy for green loans is limited to HUF 200+100 billion HUF, the "baby expect" program will expire at the end of 2020, and the "home renovation" program will also expire at the end of the year).Housing prices in 2022

As for expectations, experts predict a decline in real estate prices, some analysts even predict a sudden end to the boom in this market segment. Looking into the future, we should examine 5 factors:

1. Inflation,
2. Interest rates,
3. Demand-side factors (real wage trends, employment rates, etc.)
4. Real estate as an investment,
5. Supply side factors (new construction, government subsidy programs).

As for inflation and interest rates, it is clear that conditions point to a contracting housing market. On real wages, the signs are not clear, as real net wages grew 3.4 percent in 2021 compared to 2020, while earlier years showed stronger growth in real net wages. (See Table 2!) Looking at earlier years, we can see that there is a strong correlation between rising prices in the housing market and robust growth in real net wages. The period between 2014 and 2020 is a good example of real net wage growth coinciding with the housing market boom, while the previous period of low wage growth did not support housing market growth.

The fourth factor - the housing market as an investment factor - is more difficult to assess, as it also requires forecasts of the bond and stock markets as alternatives to real estate investment. The Hungarian stock market has robust growth in 2020 and 2021, but geopolitical uncertainties and the monetary tightening policy of FED point to choppy waters for this year. We should add that the war in Ukraine generally does not support long-term investments such as buying apartments and houses, so we can conclude that this factor does not indicate the direction in which the market is moving.

Table 2. Real net wages compared to previous year (%)	
Years	Change in percentage (100=previous year)
1992	98,6
1993	96,1
1994	107,2
1995	87,8
1996	95,0
1997	104,9
1998	103,6
1999	102,5
2000	101,5
2001	106,4
2002	113,6
2003	109,2
2004	98,9
2005	106,3
2006	103,6
2007	95,4
2008	100,8
2009	97,7
2010	101,8
2011	102,4
2012	96,6
2013	103,1
2014	103,2
2015	104,4
2016	107,4
2017	110,3
2018	108,3
2019	107,7
2020	106,2
2021	103,4
Source: Hungarian Statistical Central Office	

As for the fifth factor, which reflects the changes on the supply side, we can see that this depends very much on the decisions of the new government. Based on the communication of the new government, some forms of government subsidies will be maintained in this market segment. However, the question remains whether the government will be able to support this sector to the same extent as before. (The number of new contracts in the construction sector declined significantly in March, down 30 percent in March 2022 compared with March 2021.9

Summary

Based on the indicators we have seen so far, we can conclude that the robust growth in housing prices will not continue. However, this does not necessarily mean that the numbers will collapse, as the final growth of the sector will depend on the intervention of the government and the financial incentives provided by the government.

The geopolitical uncertainty will also discourage people from borrowing money when necessary in these times, and they may postpone their real estate purchases. At the same time, investments in the stock market also seem to be becoming more uncertain than before, which could lead investors back to the real estate market.