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The Hungarian Housing market and the Development of the Construction Sector in 2023

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The Hungarian Housing market and the Development of the Construction Sector in 2023

The development of the housing market plays a crucial role in Hungary's economic development, and its fluctuations can have far-reaching effects on the overall economy. Several key factors influence the housing market, including economic growth, inflation, interest rates, borrowing and lending trends, practices and confidence indicators related to the housing market and the construction sector. Unfortunately, recent months have seen a confluence of negative developments in these areas, leading to uncertainties and a rather gloomy outlook in the world market which mainly derives from the side-effects of the Ukrainian and Russian war (prices shock in the energy market, worsening terms of trade, global rise of interest rates etc.). In this briefing, we will delve into the recent trends in the Hungarian housing market, focusing on aspects such as prices, the number of new construction projects, and contracts within the construction sector. We will also explore how the government has supported or mitigated these changes, along with broader perspectives on the construction sector.

Recent Data

According to data from the Hungarian Central Statistical Office (HCSO), the second quarter of 2023 witnessed a 2.9 percent drop in housing market prices compared to the previous quarter. This decline is the most significant since the Global Financial Crisis of 2008-2009, which back then led to the collapse of the market. The dop in prices also reflects the current uncertainties in the market, however, unlike the Global Financial Crisis, the Hungarian economy was much more prepared for the crisis, since the prior-crisis economic growth was not built upon debts but solid finances in the public budget and decreasing public debt were bolstering up the economy and provided for more maneuver room.[1]

When looking at annual comparisons, we can observe that housing prices in Hungary had been on the rise since 2014. Even during the height of the global pandemic in 2020, the decrease in housing prices was only 2.9 percent quarter-to-quarter. This recent decline can be attributed to higher interest rates and weakened purchasing power of private households, which provide

[1] https://www.ksh.hu/gyorstajekoztatok#/hu/document/lak2306

a clear explanation for the market's downturn. However, when assessing annual price indices, it is important to note that prices in the housing market have either grown slightly or remained stable, with a 1 percent change between Q2 2023 and Q2 2022. It is noteworthy that this trend is not unique to Hungary; other EU member states have experienced similar drops and slight growth in housing prices, with Germany standing out due to a 10 percent annual price decrease. Analysts attribute Germany's situation to strict measures aimed at reducing the number of buildings with oil and gas heating systems, which prompted owners to sell their properties due to the high costs of modernization. [2]

The Hungarian real estate platform Ingatlan.com has been monitoring the development of residential housing prices, providing valuable insights into the market. The data indicate that prices in this segment have either stagnated or slightly decreased over the past year. In the capital city, square meter prices dropped by 0.1 percent this quarter, with the average price per square meter reaching 935,000 forints. Outside the capital, in most county seats, square meter prices either remained stagnant or decreased compared to the previous quarter. For example, in Debrecen, the average price was 740,000 forints, slightly higher than the July figure of 739,000. In Kecskemét, prices increased slightly to 594,000 forints from 589,000. In Miskolc, there was a 0.2% decrease, bringing the price to 410,000 forints. Szeged saw a change from 658,000 to 655,000, while in Pécs, prices dropped to 583,000 from 590,000 three months prior. Győr exhibited stagnation, with the current price at 741,000 forints. An exception was Zalaegerszeg, where prices increased by 3.9% to 512,000 forints in just three months, driven by ongoing job-creating investments in the county seat.

It is essential to consider the impact of high inflation during this period. Although the annual consumer prices index dropped to 12.2 percent in September 2023 from a peak of 15.7 percent in January 2023, the impact of inflation is still significant on the overall economy. And despite the significant rise in prices over 2022-2023, housing market prices have not risen with the same momentum. The high inflation rate in Hungary has meant that the real prices in the housing market have been steadily declining since the fourth quarter of 2022. When looking at real price changes, which include the effect of inflation, we can observe a general trend of price declines across the country. The only exception appears to be towns and villages, where this downward trend started a quarter earlier.

[2] https://24.hu/fn/gazdasag/2023/10/04/ingatlanpiac-arcsokkenes/

In conclusion, the Hungarian housing market and the construction sector are facing challenges in 2023 due to a combination of economic factors, inflation, and global uncertainties. The decline in housing market prices, though significant, must be viewed in the context of broader economic forces. The actions of the government and various stakeholders will play a critical role in navigating these challenges and fostering stability in the housing and construction sectors.

Table 1. Real housing price indexes (compared to the corresponding quarter of the previous year, in percent)

	Budapest	Cities	Towns, villages	Total
2022 Q2	108.9	117.4	120.8	116.3
2022 Q3	102.7	105.2	96.7	102.1
2022 Q4	94.5	93.5	84.2	91.0
2023 Q1	87.8	86.9	75.3	83.5

Source: https://statisztika.mnb.hu/sw/static/file/MNB_Lakasarindex_2023Q1.pdf

Macroeconomic background

The slight deceleration of the Hungarian economy has become increasingly noticeable as we reached the end of the previous year, 2022. While some key economic indicators, such as employment and unemployment rates, have shown a degree of stability, there are underlying concerns related to the real disposable income of private households. This decline in disposable income is primarily attributable to the persistent challenge of high inflation, which is affecting the purchasing power of the populace. While the net average salary increased by 15.1 percent in July 2023 compared to July 2022, the consumer price index rose by 17.6 percent during the same period. It meant that there was a drop of real wages by 2.5 percent.

In summary, the positive developments in the labor market, marked by steady employment and unemployment rates, have not been sufficient to counterbalance the broader negative impacts on the housing market. This has contributed to the ongoing decline in the housing market, creating a complex economic landscape.

It is important to note that this decline in the housing market is not uniform; it affects different regions asymmetrically. Historically, when housing prices show an upswing, the growth tends to be more pronounced in the capital city compared to other cities, and urban areas, property values go up faster in urban areas than towns and villages. For instance, a striking illustration of this trend is the remarkable difference in price growth between Budapest and other Hungarian cities. Between the fourth quarter of 2013 and the first quarter of 2023, housing prices surged by an impressive 325 percent in Budapest. However, the rate of increase in Hungarian cities was noticeably lower, standing at 197 percent during the same period.

Table 2. Price to income ratio and average square meter prices in 2022

	Price to income ratio	Average square meter price in thousand HUF
Debrecen	13.4	651
Budapest	11.9	852
Szekesfehervar	10.2	593
Szeged	10.9	547
Győr	9.6	602
Pécs	10.0	492
Miskolc	7.2	338

Source: https://www.mnb.hu/kiadvanyok/jelentesek/lakaspiaci-jelentes/lakaspiaci-jelentes-2023-majus

This asymmetric impact on different regions within Hungary underscores the complexity of the housing market and its sensitivity to a variety of economic factors. As the country navigates these economic challenges, it will be crucial to consider these disparities and their implications for both the housing market and the broader economy.

In addition to the local distribution of prices, the ratio between wages and prices is indeed a crucial factor in understanding the real estate market in Hungary. Recent years have shown a rather disheartening trend in most cities, where the ratio of apartment prices to wages has worsened, despite a brief improvement during the years of Covid-19. Debrecen, in particular, has witnessed a striking challenge in this regard. Recently, the city has attracted significant direct investments, indicating economic growth and development. However, this has also led to an alarming statistic: it now takes approximately 13.5 years of net salary to purchase an average-priced 74 square meters apartment in Debrecen. This high ratio underscores the strain on residents' ability to afford housing, even in the face of economic opportunities. On the brighter side, Miskolc stands out as a city where the price-to-income ratio was relatively more favorable in 2022. With a ratio of 7.2 years, Miskolc appears to be a more affordable option for prospective homebuyers. It's worth noting, though, that the average square meter price is lower in Miskolc compared to other larger Hungarian cities. This reflects a unique dynamic in the housing market, where affordability is influenced not only by income but also by regional variations in property values.

These developments underline the complex interplay between economic factors, local investments, and the cost of living, which collectively shape the real estate landscape in Hungary. Addressing such disparities between cities remains a significant challenge, one that requires attention from policymakers and stakeholders in both politics and economics.

The economic landscape in Hungary presents a complex challenge, particularly in the realm of borrowing and mortgages. The dwindling purchasing power of citizens has made it increasingly difficult to secure loans from banks, even with the extension of the "interest-rate-stop" measure until the end of this year. This measure, which was implemented on October 27, 2021, capped the reference interest rates for mortgages, with 3-, 6-, and 12-month BUBOR reference rates ranging between 2.02 and 2.40 percent. These rates are notably lower than what banks would offer without the regulation in place. It's estimated that, without the "interest-rate-stop" regulation, interest rates for mortgages could surge to a staggering 16-18 percent. However, thanks to this regulation, interest rates for mortgages are currently held in the range of 4-5 percent.

The government's commitment to this regulation is evident, as they have emphasized several times that it will remain in effect until the interest rates of the central bank drop below 10 percent. This long-term outlook is influenced by the current trends in slowing inflation, which indicate that such a drop might be expected in the first part of 2024. The "interest-rate-stop" regulation is not only a crucial financial safeguard for many Hungarians but also an illustration of the government's efforts to maintain economic stability during these challenging times. However, this strategy is not without its critics, as it can have far-reaching implications for the broader financial market and investment landscape. Striking the right balance between ensuring affordable mortgages for citizens and fostering a healthy financial system will remain a topic of significant debate and policy consideration in Hungarian politics and economics. [3]

The government's efforts to stabilize the mortgage market in Hungary have taken a multi-faceted approach, including urging banks to implement a voluntary cap on interest rates. As of October 9, the voluntary interest rate cap has been put into effect, and every major financial institution has either joined or pledged to join this initiative. This cap ensures that banks cannot offer mortgage loans with a total interest rate indicator exceeding 8.5 percent. This move is aimed at making mortgages more affordable and manageable for borrowers.

[3] https://www.portfolio.hu/bank/20230628/lakashitelek-akkora-siras-rivas-johet-a-kamatstop-utan-amekkorara-meg-talan-a-kormany-se-gondolt-624765

Furthermore, the government has extended its request to banks to include additional loan types in this initiative, specifically focusing on market-based working capital loans for businesses. The interest rates for these loans are also capped at a maximum of 12 percent. Notably, major banks in Hungary, including CIB Bank, Erste Bank, Gránit Bank, K&H Bank, MagNet Bank, MBH Bank, OTP Bank, Raiffeisen Bank, and UniCredit Bank, have shown their commitment to this voluntary cap.[4]

Despite these measures, the volume of mortgage loans in Hungary has not seen a substantial increase. In January 2023, Hungarian banks issued 40 billion HUF in mortgage loans, a figure that only slightly improved to 54.4 billion HUF in a single month. However, when considering the bigger picture, it becomes evident that this volume remains relatively low. Hungarian banks issued a total of 963 billion forints in mortgage loans, and the volume of mortgage loans only amounted to 361 billion forints in the first eight months of the year. This indicates a significant decline of 62 percent in mortgage loan volumes when compared to previous periods.

The data reflects the challenges that the Hungarian mortgage market faces, despite these well-intentioned initiatives. Factors such as economic conditions, consumer confidence, and lending practices play a significant role in shaping the dynamics of the mortgage sector. Addressing this issue will likely require ongoing collaboration between the government, financial institutions, and other stakeholders to strike a balance between stimulating lending and managing risk in the market.

The first part of the year has been marked by a prolonged and concerning downward trend in household lending in Hungary. The figures reveal a significant decline in lending activity when compared to the previous year. In the fourth quarter of 2022, Hungarian banks issued mortgage loans valued at 444 billion, indicating a substantial 34 percent decrease in annual comparison.

This deteriorating pattern began in 2022 and has continued to worsen in 2023. February 2023 witnessed a staggering 49 percent drop in mortgage loans compared to the same month in the previous year. This sharp decline is indicative of the challenges facing not only the mortgage loan sector but several other types of loans as well. The decline in lending, particularly in the housing market, is a matter of significant concern. It highlights a sustained trend in the lending

[4] https://index.hu/gazdasag/2023/10/10/bankok-hitel-hiltepiac-hitelkamat-lakashitel-piac-ingatlan-ingatlanpiac/

sector that could have far-reaching economic implications. A drop in lending can affect various aspects of the economy, including consumer spending, housing market stability, and overall economic growth.

The reasons behind this decline are likely multifaceted and could include factors such as economic uncertainty, changing consumer preferences, and the impact of government regulations, as discussed in the previous messages. Addressing this issue will be vital for the long-term economic health of Hungary, and it may require a coordinated effort between government authorities, financial institutions, and other stakeholders to stimulate lending and bolster economic recovery.

The findings of the survey conducted by the Hungarian central bank shed light on a significant shift in the country's housing finance landscape. While credit conditions have worsened, the demand for credit has taken a substantial hit, particularly in the housing sector. Notably, the average loan amount sought for housing purposes has experienced a considerable decline.

In February 2023, when compared to the previous year, there was a sharp decrease in the number of concluded loan agreements for both used and new housing purposes, with declines of 53 percent and 69 percent, respectively. This drop in demand can be attributed to various factors, including the expiration of the NHP ZOP program (Green Home Program) and tightening monetary conditions.

For those looking to build or purchase a new home, the average loan amount in February was 14 million Hungarian forints. This figure represents a notable reduction of 9 million forints when compared to the peak of the ZOP program, and nearly 6 million forints less on an annual basis. Furthermore, the current average loan amount falls short by 3 million forints when compared to the period before the inception of the ZOP program.

These changes in loan amounts illustrate the evolving dynamics in housing finance, which are likely influenced by a combination of shifting economic conditions and government policies. The decline in loan amounts could be indicative of reduced purchasing power, increased caution among borrowers, and the impact of policy changes that have altered the landscape of housing finance in Hungary.

Addressing this situation may require a comprehensive approach involving measures to boost consumer confidence, stimulate demand, and adapt lending conditions to the evolving economic realities. Such efforts will be crucial in ensuring the stability of the housing market and promoting access to housing finance for a broad spectrum of potential homeowners.

Construction sector

While the output in the construction sector grew by 3.0 percent in 2022 compared with 2021, and the construction of buildings expanded by 6.3 percent and that of other buildings contracted by 1.4 percent, the output in this year suffered significant losses. The output in the construction sector declined by 4.7 percent in the first eight months of 2023 compared to the corresponding period of 2022.[5]

The Hungarian Central Statistical Office has recently published figures regarding recent apartment buildings in Hungary according to which the number of newly built apartments dropped by 19 percent in the first half of 2023 compared to the corresponding period in 2022. The number of residential buildings to be constructed based on issued building permits and simple notifications was 10,880, which is 39% lower than in the same period in 2022.

While the decline was clear in 2023, the deepest point of the curve is estimated to be reached in 2024. The government regards predictability as the most important factor for the future because the construction industry cannot quickly respond to the fluctuating capacity utilization in multi-year cycles. The Deputy State Secretary stated that they are working on the development of a framework program aimed at making planned central investments foreseeable and secure. However, the Deputy State Secretary does not have information about which central investments the government would restart, but indicated that government resolutions have already been issued in June and July, allowing for the preparation of new projects.[6]

To put this development in perspective, we have to understand that for the construction industry and companies, an exceptionally resource-rich period came to an end last year. Between 2015 and 2022, the industry saw unprecedented financial inflow, which also benefited from government support aimed at facilitating home construction. Consequently, the sector and companies should remain resilient and cope up with the changes.

[5] https://www.ksh.hu/gyorstajekoztatok#/hu/document/lak2306
[6] https://hirtv.hu/hirtv_gazdasagi_hirei/2023-meg-nem-a-melypont-az-epitoiparban-2574711

Summary

In 2023, the Hungarian housing market and the construction sector are navigating a challenging landscape shaped by a confluence of economic factors, inflation, and global uncertainties. This environment has led to significant changes in both sectors, with far-reaching implications.

Housing Market Trends:

- Housing market prices experienced a substantial 2.9 percent drop in the second quarter of 2023 compared to the previous quarter. This decline is the most significant since the Global Financial Crisis of 2008-2009.
- Higher interest rates and weakened purchasing power have contributed to this decline, reflecting uncertainties in the market.
- Although the annual price indices show slight growth or stability, high inflation has affected the real prices in the housing market. Real prices have steadily declined since the fourth quarter of 2022, except for towns and villages where this downward trend started earlier.

Construction Sector:

- In contrast to the positive growth in the construction sector in 2022, there has been a 4.7 percent decline in output in the first eight months of 2023 compared to the same period in 2022.
- The number of newly built apartments dropped by 19 percent in the first half of 2023, and the number of residential buildings to be constructed based on permits and notifications decreased by 39 percent.
- The government is working on a framework program to make central investments more predictable and secure in the construction industry. This move aims to provide stability amid fluctuating capacity utilization.

In summary, these changes in the Hungarian housing market and the construction sector are a reflection of the broader economic conditions and government policies. The challenges are complex and require a multifaceted approach to stimulate demand, support affordability, and provide stability. The construction industry, which benefited from years of financial inflow and government support, must adapt to these evolving conditions. Government efforts to create predictability in central investments are a step in the right direction, but ongoing collaboration among stakeholders is essential to address these challenges effectively.