HOUSING MARKET REPORT

2024
NOVEMBER

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

Count István Széchenyi

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(November 2024)

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The housing market is of key importance for both economic agents (households, financial institutions) and the broader national economy. Housing market trends correlate closely with financial stability issues and are fundamental determinants of the short-term and long-term cyclical outlook. Overall, one can say that the housing market is integrally linked to all areas of the national economy. Housing market trends – in particular fluctuations in house prices – shape the savings and consumption decisions of households through their effect on their financial situation; they also impact the portfolios, profitability and lending activity of financial institutions via the collaterals of mortgage loans.

The Housing Market Report provides a comprehensive overview of current trends on the Hungarian housing market, identifying and describing the macroeconomic processes that influence the demand and supply sides of this market. Every six months, the Magyar Nemzeti Bank presents the relevant developments on the housing market in Hungary in this publication.

Within its primary duties, the Magyar Nemzeti Bank views the property market and therein the housing market as key areas in terms of inflation, the economic cycle and financial stability. The development of property market supply has a direct impact on economic growth, and oversupply and inadequate supply can both have serious consequences for financial stability. House price appreciation increases the wealth of households and encourages them to boost their consumption, which in turn affects growth and inflation. Price appreciation also increases the lending capacity of financial institutions while reducing their expected losses, which has a stimulating effect on the economy via an increased supply of credit. The interconnection between the residential mortgage loan market and house prices demands special attention, as a self-reinforcing interaction can develop between bank lending and house prices over the course of economic cycles.

Using a complex, multifaceted set of data, the Housing Market Report facilitates a deeper understanding of the factors behind market trends and provides insight into the interconnections among individual market participants. Nowadays, the housing market is discussed in central bank publications, both in Hungary and internationally, but typically only from the perspective of the main subject of the particular publication. In this context, the MNB's Housing Market Report is an internationally unique central bank publication, given the synthesis it offers in terms of the various macroeconomic and financial stability aspects of the real estate market. The following sets of information are used for this publication:

- *The description of the macroeconomic environment shaping the housing market is based on the information presented in the MNB's Inflation Report.[1] The statistical variables most relevant to the housing market include changes in average earnings, real incomes, unemployment and the yield environment.*

- *Our analysis of current trends on the housing market relies primarily on information supplied by the Central Statistical Office, the National Tax and Customs Authority and property agencies. Information on housing market turnover and house price trends can be subdivided according to the differences between the new-build and pre-owned segments of the housing market. Data on the regional heterogeneity of the housing market are also used.*

- *With the help of the Housing and Real Estate Market Advisory Board (hereinafter: LITT), the findings and recommendations of market and governmental actors are incorporated, in order to present housing market trends in the widest possible perspective.*

- *Our analysis of the residential mortgage loan market relies primarily on credit institutions' balance sheet data, interest rate statistics and loan agreement-level granular loan data collected by the MNB, and we also use the information collected in the Lending Survey[2] on qualitative features in lending processes.*

[1] Magyar Nemzeti Bank, Inflation Report: https://www.mnb.hu/en/publications/reports/inflation-report
[2] Magyar Nemzeti Bank, Lending Survey: https://www.mnb.hu/en/financial-stability/publications/lending-survey

Contents

1 Executive summary 7

2 Housing market demand and house prices 9

2.1 With supportive fundamentals, significant household savings may enter the housing market in 2025 9

2.2 Fundamentals also support the return to dynamic house price growth 12

2.3 Domestic housing market characterised by an increase in housing market turnover and a decrease in price negotiation 14

3 Housing loans and housing subsidies 18

3.1 HPS Plus has contributed significantly to the rebound in housing loan disbursements 18

4 Supply of new homes 22

4.1 Rising home construction costs are now holding back investment growth to a lesser extent 22

4.2 Even fewer homes may be built in 2024 than last year 24

4.3 Demand for new homes has picked up with stagnating development volumes and rising prices 26

5 Charts in the annex 30

1 Housing market demand and house prices 30

2 Housing loans and housing subsidies 33

3 Supply of new homes 33

List of Boxes

Box 1: Composite indicator to estimate the overvaluation of the housing market 15

Box 2: Charateristics of the Budapest rental market – Analysis of the short and long-term rental housing market 28

1 Executive summary

Macroeconomic factors in 2024 generally supported an upturn in domestic housing demand. Employment rose to a historic high during the year, and although labour market tightness eased the period was characterised by dynamic wage growth overall. In line with falling inflation, real income increased by 7 to 8 per cent in 2024 H1, exerting a positive impact on consumer confidence and the propensity to invest in housing projects. Looking ahead, housing market demand is expected to continue strengthening, presumably on the back of household savings coming into the market.

In 2024 Q3, housing market turnover rose by 16 per cent on average in Hungary and by 31 per cent in Budapest year-on-year. The total number of transactions concluded in the past year amounted to 144,000 in the third quarter, which is 10 per cent below the long-term average annual number of transactions. In addition to improving macroeconomic factors, the increase in housing market transaction volumes was also supported by lower interest rates on loans, the emergence of deferred demand in 2023 and the high loan amounts available under the HPS Plus programme. As significant household savings are expected to enter the market next year, the effect of purchases brought forward may have also increased in 2024 H2. With demand strengthening, the median negotiated discount rate fell to 3.0 per cent in Budapest and 5.0 per cent in rural areas by 2024 Q3, while sellers reduced their prices to a lesser extent than usual in 2023 during the advertising period.

Nominal house prices continued to appreciate in 2024 Q2. House prices rose by 9.3 per cent in Budapest, 8.7 per cent in other cities and 9.1 per cent in villages over a year. Preliminary data suggest that annual house price appreciation may have accelerated to 14.7 per cent in Budapest in the third quarter, and from 9.3 per cent to 12.8 per cent on average across the country, significantly above the EU average. In 2024 Q2, the estimated deviation of house prices from the level justified by fundamentals narrowed to 11 per cent nationally, down from 23 per cent one year earlier. We forecast house price appreciation to remain dynamic in 2024 Q4. The ban on short-term rentals in District VI of Budapest could push some homeowners towards long-term rentals, increasing the supply of sublets.

In the first eight months of 2024, in parallel with the rebound in housing market demand, the volume of housing loan disbursements also increased significantly by 148 per cent year-on-year, driven by the expansion of market-based lending and the launch of HPS Plus. On average, households applied for HUF 26 million in interest-subsidised loans under the programme in the second quarter, compared to an average of HUF 19 million for loans taken out for purchasing pre-owned homes on market terms. For both new and pre-owned homes, the availability of house purchases involving loans has improved significantly, the latter also supported by HPS Plus for those intending to have more children. Based on the number of children planned by couples under the previous HPS scheme, it is estimated that the number of persons eligible for housing support grants may have decreased by around two thirds from 2024. According to the Lending Survey, banks perceived a decline in demand for housing loans in 2024 Q3 with unchanged credit conditions, but they expect demand to pick up again in the next six months. The voluntary APR ceiling in place during the first half of the year and increasing bank competition have resulted in persistently low premiums of below 1 per cent on market-based housing loans, while the average interest rate paid by the customer, including subsidised schemes, fell to 5.5 per cent and the average APR for market-based housing loans fell to 6.8 per cent by August 2024.

In the first three quarters of 2024, 8,600 new residential buildings were issued occupancy permits in Hungary, meaning that the number of new housing units completed in Hungary decreased by 20 per cent, while in Budapest it fell by 18 per cent versus the same period of the previous year. During the same period, building permits were issued for 14,600 new homes nationwide and for 3,400 new homes in Budapest, representing a year-on-year decline of 2 per cent and 34 per cent, respectively, and looking ahead to H1 2025 this also reflects subdued housing construction volume. New housing developments by construction companies, and thus supply, are only slowly adapting to the rising demand, but mounting home construction costs have become less of a constraint on supply growth. A narrow range of banks, 11 per cent in net terms, tightened their financing conditions for housing projects in 2024 Q3, but most banks have seen a pick-up in demand *for housing project loans, which they expect to continue strengthening. In Budapest and in the countryside, the volume of new home developments is stagnating at a low level, and the number of new homes advertised for sale also fell in the third quarter. At the same time, both in rural areas and in Budapest, turnover in the new homes market picked up significantly, in line with the recovery in the used homes market. The average price per square metre of newly constructed homes in Budapest was HUF 1.53 million at the end of 2024 Q3, reflecting an annual price increase of 5 per cent.*

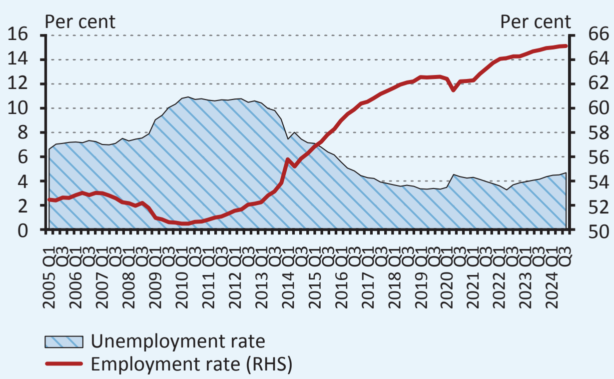
2 Housing market demand and house prices

The macroeconomic indicators that drive housing market demand improved in 2024 H1. The number of persons employed in the national economy rose to a new historic high this year, while the number of job vacancies fell in conjunction with slower economic growth, easing the tightness in the labour market in recent quarters. Housing market demand is also supported by wage growth, with average gross earnings in the private sector continuing to show double-digit annual growth and real income rising by 7 to 8 per cent in 2024 H1, in line with the lower inflation. Looking ahead, demand may be boosted by the fact that the first three months of 2025 will see the interest period anniversary date of almost three quarters of the nearly HUF 7,000 billion in PMÁP government securities held by the public, after which the attractiveness of real estate investment may increase as yields have decreased significantly. In addition, the opportunity to use voluntary pension fund savings for housing purposes tax-free next year also points to an increase in housing market demand.

In 2024 Q2, in nominal terms house prices rose by 9.3 per cent year-on-year in Budapest, 8.7 per cent in other cities and 9.1 per cent in villages. According to preliminary data, in the third quarter annual house price dynamics may have accelerated to 14.7 per cent in Budapest and from 9.3 per cent to 12.8 per cent on average in Hungary, significantly exceeding the EU average of 2.9 per cent. Based on the results of our newly developed estimation process, the estimated deviation of home prices from the level justified by fundamentals reached 11 per cent in 2024 Q2, a substantial reduction from 23 per cent in the same period of the previous year, with improving lending conditions playing a significant role in the process. In Budapest, however, in a year-on-year comparison, the level of overvaluation in the housing market has not changed significantly and remains above 5 per cent. In September, rents rose by an annual average of 9.6 per cent on a national basis.

In 2024 Q3, housing market turnover rose by 16 per cent year-on-year, with 31 per cent more sales in Budapest than one year earlier. The total number of transactions concluded in the past 12 months was 144,000 in the third quarter, down 10 per cent on the long-term average annual number of transactions. In addition to improving macroeconomic factors, the increase in housing market transactions was also supported by lower interest rates on loans, the emergence of deferred demand in 2023 and the high loan amounts available in the HPS Plus programme. With significant household savings expected to come to market next year, the role of early purchases may also increase in 2024 H2. The recovery in housing market demand is also indicated by the fact that the median negotiated discount rate in Budapest fell to 3.0 per cent in 2024 Q3 from 3.8 per cent in the same period of the previous year, while in rural areas it fell from 5.7 per cent to 5.0 per cent, and sellers reduced their prices to a lesser extent than usual in 2023 during the advertising period.

Chart 1
Unemployment and employment rate

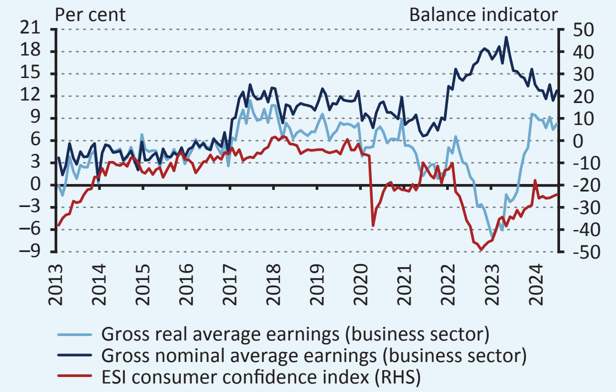


Note: In the 15–74 age group.
Source: HCSO

2.1 WITH SUPPORTIVE FUNDAMENTALS, SIGNIFICANT HOUSEHOLD SAVINGS MAY ENTER THE HOUSING MARKET IN 2025

Employment in the national economy is high, but labour market tightness have eased in recent quarters. In September 2024, the number of employed persons stood at 4,699,000, down 32,000 on the same period of the previous year. The gradual economic recovery and the demographic trends are both constraints to further substantial employment growth. The number of persons employed in the private sector may increase by 0.3–0.4 per cent in 2024 and then by 0.0–0.5 per cent in 2025 and 2026. The seasonally adjusted unemployment rate was 4.5 per cent in 2024 Q2, similar to the first quarter, but then rose to 4.7 per cent by the end of the third quarter (Chart 1).

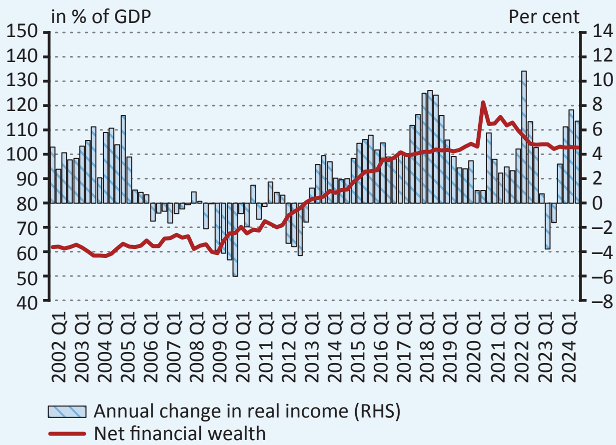
Chart 2
Annual changes of average wages in the private sector and changes in ESI consumer confidence index



Note: Based on seasonally adjusted data. The data series runs until July 2024.

Source: HCSO, European Commission

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



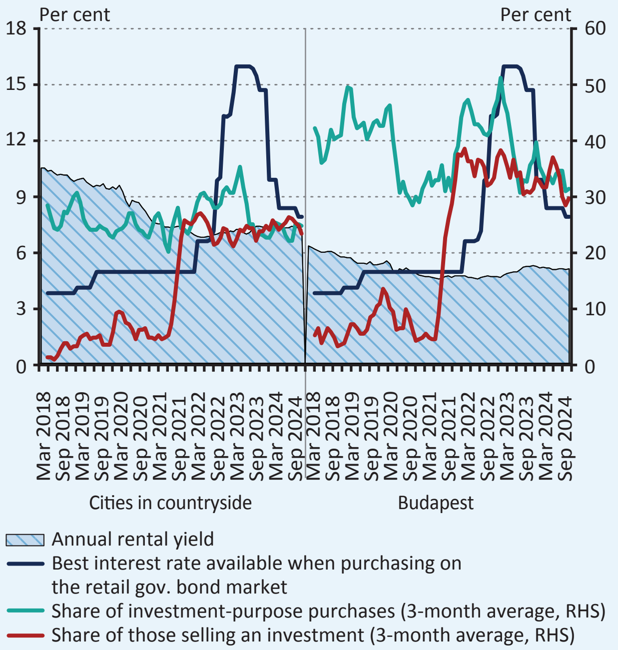
Source: HCSO, MNB

The number of unemployed persons was 210,000 in August, reflecting a year-on-year increase of 15,000. The number of job vacancies in a wide range of economic sectors has fallen in year-on-year terms, with the largest declines in 2024 Q2 in manufacturing, transport and storage, information and communication, and construction. According to the latest ESI survey, the majority of companies in trade, construction and industry are planning to reduce their workforce in the coming months.

Wage developments remain strong. In 2024 Q2, average gross earnings in the private sector increased by 12.2 per cent on an annual basis (Chart 2). Average regular earnings increased by 12.6 per cent versus the same period last year, while bonus payments were slightly lower than in previous years. In December 2023, the minimum wage rose by 15 per cent and the guaranteed minimum wage by 10 per cent. In the public sector, the sectoral wage measures in force since the beginning of the year (e.g. salary rise for teachers, law enforcement and defence personnel in January and for health care workers in March) boosted average gross earnings growth, which reached 17.5 per cent in July.

In 2024 Q2, real income increased by 6.7 per cent year-on-year. Net financial wealth as a share of GDP has been stagnating over the past two years. Favourable wage and income trends in 2024 may result in household consumption underpinning economic growth. Real wages have been on the increase since September 2023 in parallel with the decrease in the rate of inflation. In 2024 Q1 and Q2, real income rose by 7.7 per cent and 6.7 per cent, respectively, year-on-year (Chart 3). Looking ahead to 2024 as a whole, wages may rise by 11.6-11.9 per cent in nominal terms, while real wages in the competitive sector may rise by 7.6–8.0 per cent.

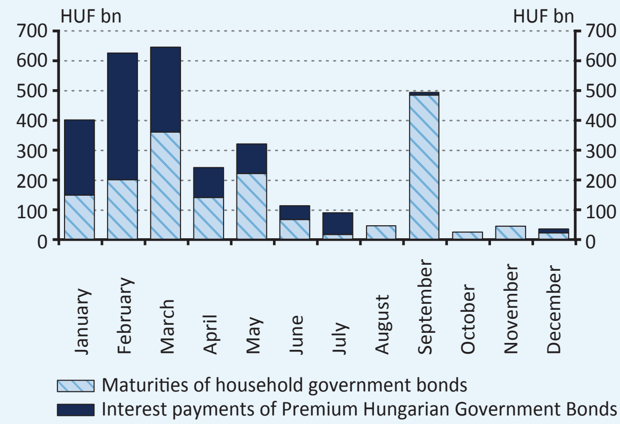
Chart 4
One-year forward-looking rental yield and the share of house purchases for investment purposes and those selling their investment



Note: The annual rental yield calculated as the ratio of the annual rental yield net of personal income tax to the house price plus duty on the acquisition of property.

Source: HCSO-ingatlan.com, Duna House, MNB

Chart 5
Maturities of retail government bond and interest payments of Premium Hungarian Government Bond in 2025



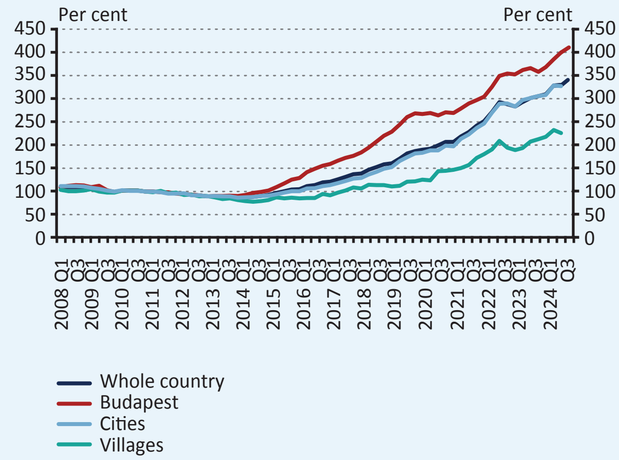
Note: Data refer to July 2024.

Source: MNB

The share of investors remains balanced on the buyers' and sellers' side of the housing market. According to the results of a survey conducted by Duna House, in 2024 Q3 investors accounted for 25 per cent of buyers and 23 per cent of sellers in the rural housing market, and 31 per cent of buyers and 30 per cent of sellers in Budapest (Chart 4). The proportion of persons buying for investment purposes is lower than in previous years, both in Budapest and in rural areas. Rents rose by 9.6 per cent on a national average and by 9.8 per cent in Budapest on an annual basis in September (Annex, Chart 10). In September, the average home rental yield in rural cities was 7.2 per cent and 5.1 per cent in Budapest, with both figures basically unchanged over the past year. In the retail government securities market, the highest annual interest rate available during the interest rate period of the purchase period has fallen from 14.75 per cent to 7.9 per cent over the same period, and in early 2025 the yield on previously purchased inflation-linked retail government securities will also drop significantly, thus increasing the relative attractiveness of real estate investments.

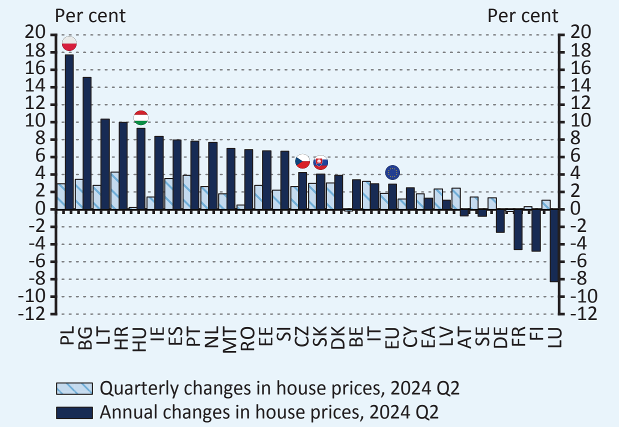
Substantial funds may flow into the domestic housing market from savings of the population in 2025. Based on the Government's proposal submitted for public consultation, in 2025 voluntary pension savings may be used tax-free for the purchase of property purely from own funds, that is, without borrowing, as own contribution for housing loans, for the repayment of housing and free-end mortgage loans and for home renovation. Pension fund members will also be permitted to use the savings for their own, their spouse's or their children's housing needs. The Government expects that as a result of the measure, HUF 300 billion may flow into the housing market from the voluntary pension fund assets, which amount to approximately HUF 2,100 billion. A more significant impact could come from the fact that, alongside various forms of savings, housing investments will also compete for the funds released from possible redemptions due to maturities of retail government securities, high Premium Hungarian Government Securities (PMÁP) interest payouts, and the potential decline in PMÁP interest rates. In 2025, households will receive interest payments of around HUF 1,300 billion on some series of PMÁP, and almost HUF 1,800 billion of retail government securities will mature (Chart 5). Most of these payments will be due in the first five months of the year. Moreover, nearly three quarters of the almost HUF 7,000 billion of PMÁP held by the public have an interest period anniversary date in the first three months of the year, after which the redemption rate of these securities may also rise.

Chart 6
Nominal MNB house price indices by settlement type (2010 = 100 per cent)



Note: Third quarter of 2024 based on housing market agency data.
Source: MNB

Chart 7
Developments in house prices in the EU Member States



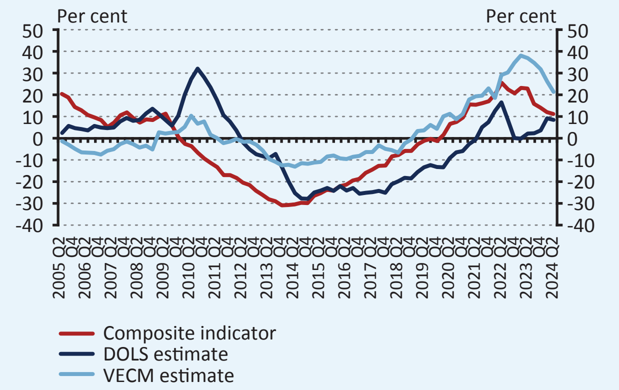
Source: Eurostat, MNB

2.2 FUNDAMENTALS ALSO SUPPORT THE RETURN TO DYNAMIC HOUSE PRICE GROWTH

The house price dynamics of 9 per cent in 2024 Q2 may have accelerated further, according to preliminary data. The annual nominal growth rate of domestic house prices reached 9.3 per cent nationally in 2024 Q2, and the increase was 5.3 per cent also in real terms. Indices published by the Hungarian Central Statistical Office (HCSO) show year-on-year increases of 9.6 per cent and 10.1 per cent in the prices of used homes and newly built homes, respectively, in the second quarter (Annex Chart 2). According to the MNB housing price index, nominal house prices increased by 9.3 per cent in Budapest, 8.7 per cent in rural towns and 9.1 per cent in villages in 2024 Q2 compared to the same period of the previous year (Chart 6). According to the preliminary MNB house price index calculated on the basis of transaction data from real estate agents, year-on-year house price appreciation may have accelerated to 12.8 per cent nationwide and 14.7 per cent in Budapest in 2024 Q3.

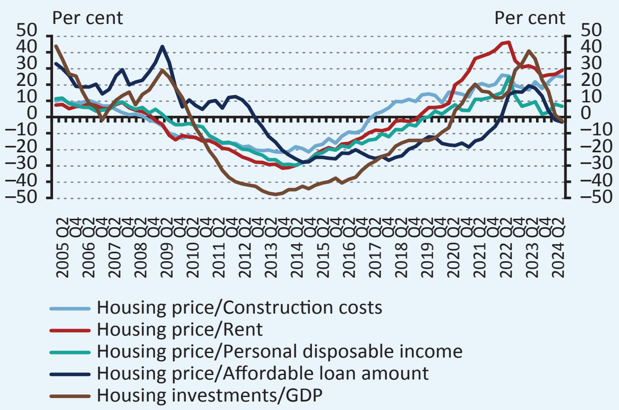
House prices have risen in a wide range of EU countries. On a quarterly basis, nominal house prices in the EU housing market increased by an average of 1.9 per cent on a quarterly basis and by an average of 2.9 per cent on an annual basis in 2024 Q2. There are significant differences in annual house price dynamics across Member States, with an increase of almost 18 per cent in Poland and a decrease of 8 per cent in Luxembourg (Chart 7). However, on a quarterly basis, house prices increased (in some cases stagnated) in almost all Member States. Thus, the temporary downturn in the EU housing market from mid-2022 may be over, with recovery becoming the dominant trend again.

Chart 8
Deviation of house prices from the estimated level justified by fundamentals[3]



Source: MNB

Chart 9
Sub-indicators of the composite indicator



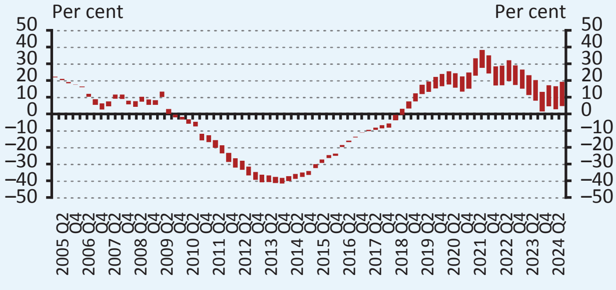
Note: Deviations from the long-term average.
Source: MNB, KSH, Eurostat

Over the past year, the overvaluation of homes relative to fundamentals declined. According to our new composite indicator methodology (see Box 1 for detailed methodology), the estimated deviation of home prices from the level justified by fundamentals reached 11 per cent in 2024 Q2, down substantially from 23 per cent in the same period of the previous year (Chart 8). Our other model estimates show that, based on household income alone, housing market overvaluation has risen somewhat, but has fallen substantially when taking into account the easing of lending constraints.

Stronger demand through lending and tighter new supply justify higher house price levels. For two of the five sub-indicators of the composite indicator of housing market overvaluation, we observed a substantial reduction in risks over the past year (Chart 9). On the one hand, falling lending rates have increased the affordable loan amount at a faster pace than house prices, making housing market demand more sustainable. On the other hand, the value of housing investment as a share of GDP has declined and the supply of new housing has become tighter, which also justifies higher equilibrium house prices. However, the ratio of house prices to rents and construction costs has not changed significantly and remains high by historical standards.

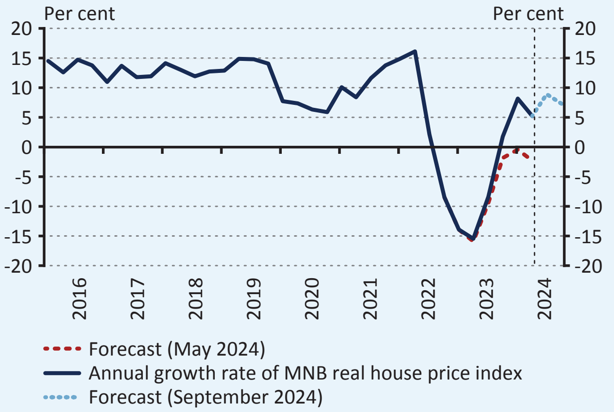
[3] The deviation of house prices from the level justified by fundamentals is analysed using a composite indicator and also quantified using two model-based estimates. Sub-indicators of the composite indicator: house price/income, house price/rent, new house price/construction cost, house price/affordable loan amount, housing investment/GDP. The composite is calculated as the weighted average of the deviations from the long-term average for each sub-indicator. The model estimates are as follows: 1. Estimation of the long-term equilibrium level of Hungarian house prices as determined by macroeconomic fundamentals in a vector error correction model (VECM). For details on this methodology, see *Berki, T. – Szendrei, T. (2017): The cyclical position of housing prices – a VECM approach for Hungary, Magyar Nemzeti Bank, OP 126; 2*. Estimation of the level of Hungarian house prices as determined by macroeconomic fundamentals in a dynamic OLS model; The explanatory variables in the model are disposable income of households and the unemployment rate. The deviation of house prices in Budapest from the estimated level justified by fundamentals is presented on the basis of the Budapest composite indicator, where the estimation range is given by the weighted version of the deviations of the composite indicator from the long-term average of the sub-indicators and the weighted version of the deviations of the sub-indicators from the HP trend. In the Budapest composite, the housing investment/GDP sub-indicator is replaced by the number of house constructions.

Chart 10
Estimation range of deviation of Budapest house prices from the level justified by fundamentals



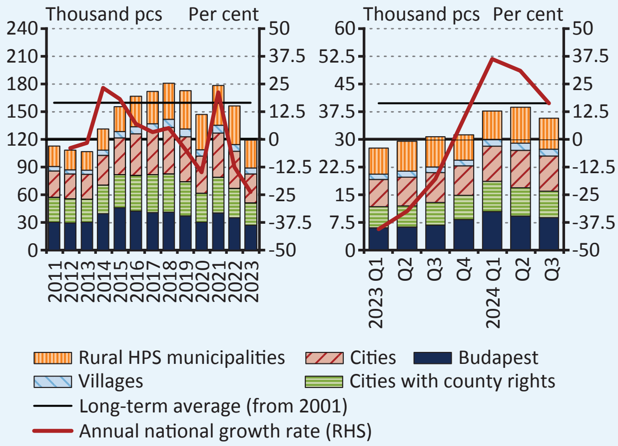
Source: MNB

Chart 11
Annual change and forecast of aggregated real MNB house price index



Source: MNB

Chart 12
Number of housing market transactions by type of settlement



Note: Taking into account the ownership acquisitions of 50 and 100 per cent by individuals. Between January 2023 and March 2024, data in the National Tax and Customs Administration duty database were adjusted on the basis of the estimated level of processing by type of settlement. From April 2024, based on transactions and estimated market share of real estate agents.

Source: NTCA, MNB, housing agent database

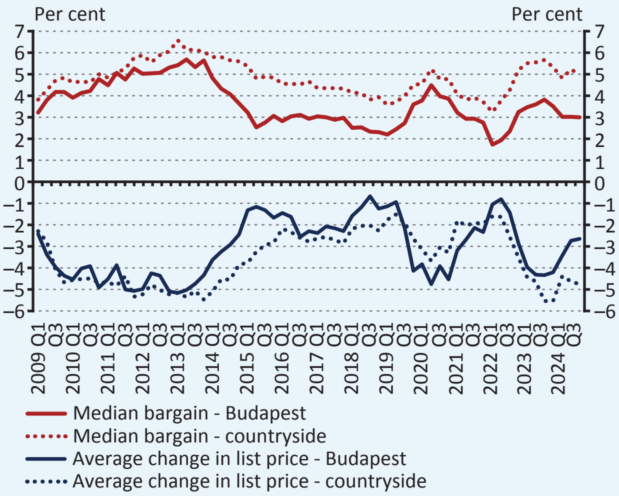
In Budapest, in a year-on-year view, the level of overvaluation in the housing market has not changed significantly. We estimate that house prices in Budapest were 5 to 19 per cent above the level justified by fundamentals in 2024 Q2, compared to a range of 8 to 20 per cent in the same prior-year period (Chart 10). In Budapest, in 2024 Q2 an average of 11 years of average local income was needed to buy a median-priced 75-square-metre home (Annex Chart 5). In an EU comparison, Budapest was the 10th least affordable capital city in 2024 Q3, based on the ratio of house prices to national average income (Annex, Chart 6).

Real house prices are expected to rise in 2024 H2. We forecast nominal house prices to rise by 11.4 per cent and real house prices by 7.4 per cent year-on-year in 2024 Q4 (Chart 11). Among the macroeconomic fundamentals that determine housing market trends, real income growth may provide a significant support to housing market demand. In addition, housing subsidies and favourable credit market conditions, as well as household savings from the government securities market, are also contributing to the recovery in housing investment.

2.3 DOMESTIC HOUSING MARKET CHARACTERISED BY AN INCREASE IN HOUSING MARKET TURNOVER AND A DECREASE IN PRICE NEGOTIATION

In 2024, the number of sales in the housing market stabilised close to the long-term average. In 2024 Q3, the number of housing market transactions reached 35,800, on the heels of a 16-per cent annual increase, bringing the number of transactions close to the long-term average (39,800). Four-quarter rolling sales totalled 144,000 (+23 per cent year-on-year). By type of settlement, the number of transactions rose by 31 per cent in Budapest, 16 per cent in cities with county rights and 18 per cent in other cities, while the number of transactions in settlements eligible for Village HPS increased by only 3 per cent in the third quarter compared to the same period of the previous year (Chart 12). The increase in the number of sales was supported by positive real wage growth, stronger consumer confidence, the emergence of deferred demand in 2023 and the fall in lending rates, while the higher loan amount available in HPS Plus from January boosted the availability of used homes and thus demand, especially in Budapest and urban areas. In 2024 H2, the role of purchases brought forward may also have increased due to the significant household savings expected to enter the market next year.

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



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

Source: MNB, housing agent database

The level of discounts from the original asking price of homes decreased, mostly in Budapest. In Budapest, the median negotiated discount rate was 3.0 per cent in 2024 Q3, down from 3.8 per cent in the same period of the previous year, while in rural areas it fell from 5.7 per cent to 5.0 per cent over the same period, indicating a recovery in housing market demand (Chart 13). In the capital, advertisers reduced their offer prices by an average of 4.3 per cent one year ago, but by only 2.6 per cent in 2024 Q3. In rural areas, advertisers continued to reduce their initial asking prices substantially, by an average of 4.8 per cent, but this also represents a reduction from the peak of 5.5 per cent in the same period last year.

Box 1

COMPOSITE INDICATOR TO ESTIMATE THE OVERVALUATION OF THE HOUSING MARKET

In this Box, we present a composite indicator based on international examples,[4] which provides an estimate of the deviation of house prices in Hungary and Budapest from the values justified by fundaments. The composite indicator is based on five sub-indicators that capture the correlations between the real economy, housing and investment-purpose housing market demand (taking into account affordability through loans) and housing supply. The composite indicator gives an estimate of the deviation of house prices from fundamentally justified levels, based[5] on the weighted average of the percentage deviations[6] of the values of the sub-indicators under consideration from the historical average, on the basis that economic correlations require the rates under consideration to revert to the average in the long run. Therefore, the reliability of the composite is increased by the fact that it only indicates overvaluation if most of the correlations captured by the sub-indicators suggest such.

The composite sub-indicators are:

(1) Housing price/income: If house price levels relative to income are significantly above the normal level, this may indicate that housing market demand is not sustainable in the long run. Households then postpone their purchases due to affordability constraints, increasing the risk of falling house prices. The indicator is calculated by comparing the real house price index of the MNB with the real disposable income of households; both variables are also available for Budapest.

[4] In constructing the composite indicator, we have drawn primarily on the following studies: *Schneider, M. (2013). Are recent increases of residential property prices in Vienna and Austria justified by fundamentals? Monetary Policy & the Economy, Issue 4, 29-46; Hertrich, M. (2019). A novel housing price misalignment indicator for Germany. German Economic Review, 20(4), e759-e794; Micallef, B. (2018). Constructing an index to examine house price misalignment with fundamentals in Malta. International Journal of Housing Markets and Analysis, 11(2), 315-334.*

[5] The time series are taken into account from 2000 Q1 for the national average calculation, and from 2001 Q1 for Budapest, with the exception of the house price/affordable loan amount sub-indicator, as the time series of the average market APR is available only from 2005.

[6] The weights of each sub-indicator are determined using principal component analysis, following the method recommended by *OECD (2008): Handbook on Constructing Composite Indicators, Nicoletti et al. (2000).* The weighting method does not give the theoretical importance of each sub-indicator in the development of overvaluation, but merely determines the optimal weights based on the overlap of the information content of each indicator.

(2) Housing price/affordable loan amount: It is not sufficient to measure the purchasing power of households in the housing market on the basis of income alone, as the level of housing loan interest rates also affects the value of the home that a household can afford to buy with credit. To take this factor into account, we define the so-called affordable loan amount,[7] which shows how much an average household can afford to repay, at a fixed interest rate, without significant financial strain, given their income and the current level of market housing loan interest rates. The nominal housing price index of the MNB is then compared to the affordable loan amount. For Budapest, we use the same APR, but with local incomes and house price index.

(3) Housing investment/GDP nationally, number of new homes in Budapest: While the indicators presented above look at whether homes are too expensive relative to individual income, the ratio of housing investment to GDP captures how much resources are flowing into the housing market at the level of the national economy. If speculative investor expectations fuel house price rises for a long time, this will be reflected in excessive levels of investment in housing, resulting in sub-optimal capital allocation. However, a significant number of new constructions will substantially increase the housing market supply, which could eventually lead to a market cycle turn and a fall in house prices. The inclusion of GDP in the denominator also captures when the turn of the cycle is triggered by a fall in demand (expansion of demand) caused by a general recession (boom). The indicator values are smoothed with four quarterly moving averages. The housing investment/GDP ratio is not available for Budapest, where it is replaced by the four-quarter moving average of the number of new homes completed in the capital.

(4) Housing price/construction costs: On the supply side, the cyclical risks built into house prices are also well captured by the profit rate at which newly developed homes can be sold, i.e. how the price of new homes relates to construction costs. If the available margin is high, this leads to an expansion of housing construction, which in turn retards house price dynamics by increasing supply. The national sub-indicator is calculated as the quotient of the new home price index of the HCSO and the construction cost index (smoothed with a four-quarter moving average). We do not have a new house price index for Budapest, and thus we use the MNB Budapest house price index.

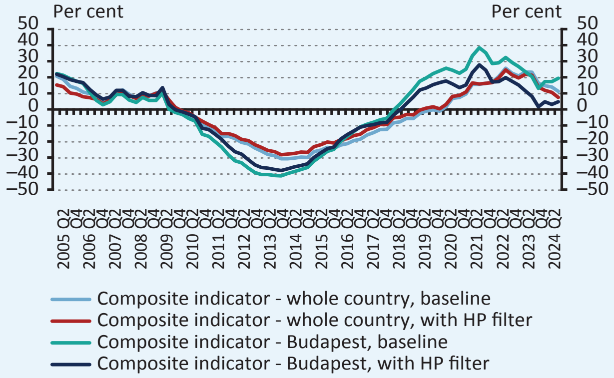
(5) Housing price/rent: If house prices persistently rise faster than rents, this also implies a decline in demand for investment and housing. Investors are either raising rents more quickly or looking for higher yielding investments rather than the housing market as yields from renting fall, and households looking to meet their housing needs may increasingly turn to the rental market rather than buying if the cost of housing (including the opportunity cost of capital in the case of a home purchase) is lower. The behaviour of both groups tends to moderate house price dynamics and increase rents. The index is calculated by comparing the nominal house price index of the MNB with the KSH-ingatlan.com rent index;[8] these data are also available for Budapest.

An estimation range for the deviation justified by fundamentals of house prices in the capital should be defined, using the baseline version of the composite indicator and the version allowing for underlying structural changes. The neutral level of each sub-indicator in terms of overvaluation may differ from the long-term average, and thus the composite indicator results were also calculated for sensitivity testing purposes by taking the percentage deviation values from the trends of each sub-indicator given by the two-sided Hodrick-Prescott filter into account for weighting. There is no significant difference between the time series of composites calculated with the HP filter and the base composite at the national level. However, in Budapest, the overvaluation indicated by the HP filter method has been persistently and increasingly below the baseline since 2018, with only 5-per

[7] $B_t = JTM * Y_t * \left(\frac{1-(1+R_t)^{-T}}{R_t}\right)$, where B_t is the affordable loan amount, JTM is a fixed payment-to-income ratio indicator (30 per cent in our calculation), T is the loan term (15 years in our calculation), Y_t is the household income (calculated as twice the average net income) and R_t is the average market APR.

[8] The KSH-ingatlan.com rent index is only available from 2016 onwards, for the period before that we use OECD rental fee data uniformly for the whole country and Budapest.

Composite indicator values with the baseline method and with HP filter



Source: MNB

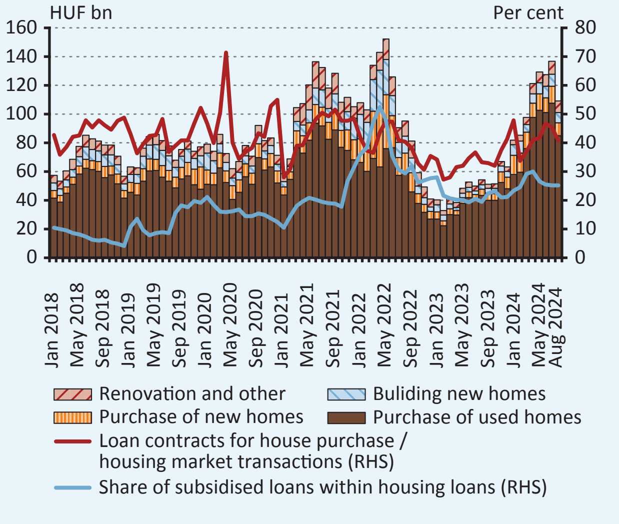
cent overvaluation in the capital in 2024 Q2 using the HP filter method compared to 19 per cent using the baseline method. On the one hand, this may be explained by the strong end-point uncertainty of the HP filter, but it is also possible that the stronger than national constraint on potential supply in Budapest – the share of buildable plots[9] – may indeed explain the long-term increase in house price values relative to some fundamentals. For Budapest, it is therefore possible that the assumptions used to construct the composite indicator for the neutral level of the sub-indicators are too strict. This currently suggests that the base method is an upper estimate of overvaluation in Budapest, while the HP filter method is a lower estimate of overvaluation.

[9] Hilber & Vermeulen (2016) shows for the UK housing market that in already highly urbanised areas, the scarcity of developable plots increases the elasticity of house price with respect to changes in income. *Hilber, C.A. – Vermeulen, W. (2016). The impact of supply constraints on house prices in England. The Economic Journal, 126(591), 358-405.*

3 Housing loans and housing subsidies

Housing lending picked up sharply between January and August 2024, with the volume of HUF 888 billion of housing loan contracts signed expanding by 148 per cent year-on-year. In addition to lower lending rates, rising real wages and the emergence of deferred demand in 2023, higher loan amounts available through the HPS Plus programme also played a role in the upturn in housing lending. Within the framework of HPS Plus, households applied for an average of HUF 26 million in interest-subsidised loans in the second quarter, while they borrowed an average of HUF 19 million for the purchase of used homes on market terms. Subsidised loan contracts concluded under HPS Plus until August accounted for 22 per cent of housing loan issuance, 63 per cent of which were for applicants without children. For both new and used homes, the availability of house purchases involving loans has improved significantly, with the latter also supported by HPS Plus among those intending to have more children. According to the Lending Survey, around one fifth of banks saw demand for housing loans fall in 2024 Q3, but expect a recovery again in the next six months. The institutions surveyed left the terms and conditions of housing loans unchanged in the third quarter and do not plan to change such going forward. However, in the third quarter, one half of the banks increased the spread on housing loans and the rate of premium on riskier loans following the phase-out of the voluntary APR ceiling, which could again increase the role of risk-based pricing for housing loans. Indeed, higher cost of funds and increased competition between banks have resulted in persistently low spreads of less than one percentage point on the housing loans market. Taking into account HPS Plus, the average initial interest rate paid by customers fell to 5.5 per cent by August 2024, while the APR level for newly contracted market housing loans was 6.8 per cent. A total of 4,041 loan applications were submitted in the first four months of the Home Renovation Programme, which will be open from July 2024, with a total of HUF 25 billion in energy efficiency investments.

Chart 14
Disbursement of housing loans by loan purpose and share of home purchase on credit



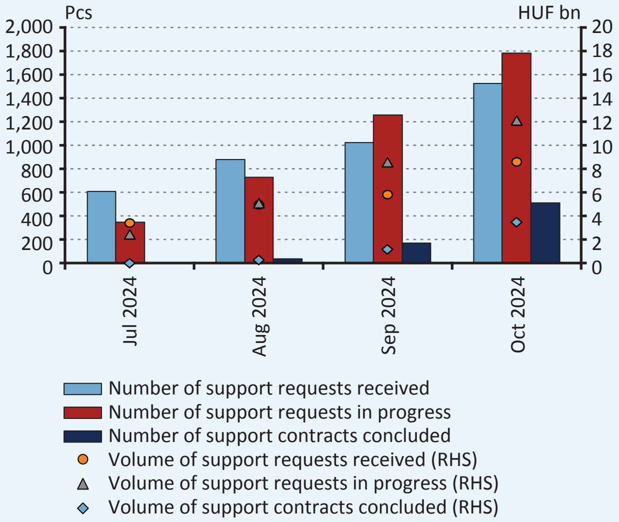
Source: MNB

3.1 HPS PLUS HAS CONTRIBUTED SIGNIFICANTLY TO THE REBOUND IN HOUSING LOAN DISBURSEMENTS

HPS Plus accounted for one fifth of this year's housing loans disbursed. Between January and August 2024, banks signed HUF 888 billion worth of housing loan contracts, 148 per cent higher than the low issuance in the same period of the previous year. HPS Plus, which is available since 1 January 2024, played a major role in the strong rebound in housing lending, accounting for around one fifth of housing loan disbursements until August with its higher available loan amount. In the first eight months of 2024, the largest annual increase of around 175 per cent was observed in loans for the purchase of a new homes. The purchase of used homes, which accounts for 77 per cent of the volume of housing loans, also saw a significant annual increase of 153 per cent, and the volume of loans for the construction of new homes more than doubled (Chart 14). In addition to the HPS Plus, lower lending rates, the emergence of deferred demand in 2023 and rising real wages have also played a role in the upturn in housing lending. All of these have contributed to the share of loans for house purchase as a share of housing transactions[10] rising by 12 percentage points in a year to 47 per cent by June 2024.

[10] The deepening of credit penetration is indicated by the fact that the share of borrowers taking out housing loans as a share of housing transactions stood at 37 per cent in June 2024, after an annual increase of 11 percentage points.

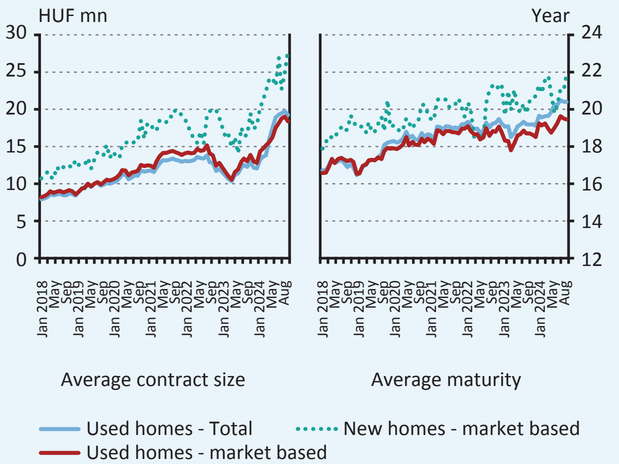
Chart 15
Cumulative number and investment amount of applications and contracts for home renovation support



Note: Requests in progress represent applications that have been recorded, but not yet positively assessed and applications that have been approved, but not yet contracted.

Source: Hungarian Development Bank

Chart 16
Average contract size and maturity of new housing loans



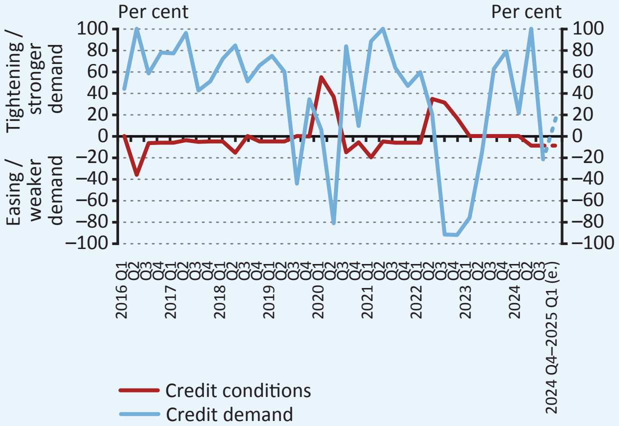
Note: Maturities are contract amount weighted averages.

Source: MNB

Contracts signed in the first four months of the Home Renovation Loan Programme will allow for investments worth HUF 3.5 billion to be implemented. The Home Renovation Loan Programme will be available from 1 July 2024 for the energy retrofitting of family homes built before 1990, with the aim of achieving at least 30 per cent primary energy savings. In the first four months of the programme, a total of 4,041 loan applications were submitted, of which 38 per cent were still in the process of being accepted and 44 per cent were pending but not yet contracted. Until October, around 500 contracts with an investment amount of HUF 3.5 billion had been signed and around 200 applications had been rejected. Based on the applications, a total of HUF 25 billion worth of energy efficiency investments were requested under the programme (Chart 15). The average total cost of investments for the concluded subsidy contracts was HUF 6.8 million, of which the financing amounted to HUF 5.6 million, of which the average non-repayable grant was HUF 3.1 million. The vast majority of the contracts signed in the four months (around 75 per cent) will be for the insulation of façades and ceilings, 14 per cent for replacing windows and 11 per cent for heating modernisation.

HPS Plus significantly increased the average loan amount of housing loans issued. The average contract amount of newly disbursed housing loans increased by HUF 5 million compared to the end of 2023, reaching HUF 19 million by August 2024. The high loan amounts available under HPS Plus also played a role in the dynamic increase, with borrowers applying for an average of HUF 26 million in interest-subsidised loans under the programme in the second quarter. In the case of market-based housing loans, an average of HUF 19 million was requested for the purchase of used homes, while an average of HUF 28 million was requested for the construction or purchase of new homes in August 2024 (Chart 16). Loan amounts have also increased relative to the collateral value, with the average LTV ratio reaching 50 per cent in mid-2024 in both Budapest and rural areas (Annex Chart 13). The average maturity of housing loans exceeded 20 years by August, and 23 years for HPS Plus loans.

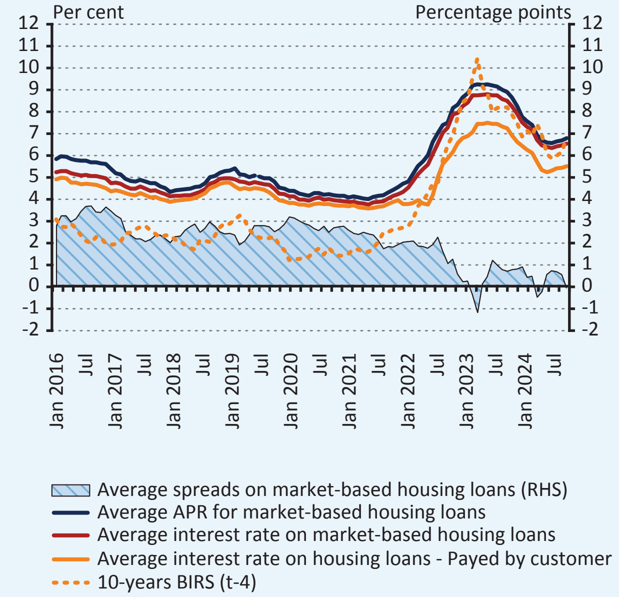
Chart 17
Changes in credit conditions and demand for housing loans



Note: Net ratio of the difference between tightening and easing and banks indicating stronger and weaker demand weighted by market share.

Source: MNB, based on banks' responses

Chart 18
Average customer interest rates on newly disbursed housing loans and financing costs of market-based housing loans



Note: Contract volume weighted average APR and interest rate data. Customer interest rates include all housing loans. APR-based spreads based on 10-year BIRS data from four months earlier.

Source: MNB

Banks observed an upswing in demand for housing loans in 2024 Q1, which they expect to continue and even accelerate. According to the responses to the Lending Survey, in 2024 Q3 banks overall did not change the terms and conditions of housing loans, but 51 per cent increased the premium on housing loans following the abolition of the voluntary APR ceiling and 56 per cent increased the premium on riskier loans, in net terms. Responding institutions do not plan to change their lending conditions for housing in the next six months, while a net 24 per cent of banks envisaged a relaxation of price conditions in line with the recovery in housing market processes and intense competition (Chart 17). In 2024 Q3, a net 22 per cent of banks saw demand for housing loans decline from the second quarter, but looking ahead, a net 16 per cent expect demand to pick up again, including interest payments and maturities of residential government securities in 2025 Q1.

Rising costs of funds by 2023, together with increased competition between banks and the APR ceiling, have led to persistently low premiums in the housing loan market. The APR on market-based housing loans declined from 7.4 per cent in January 2024 to 6.7 per cent by June, reflecting the voluntary APR ceiling until the end of June, falling borrowing costs in 2024 H1 and increased competition in the market. By the end of 2024 H1, the average interest rate on market housing loans had fallen to 6.4 per cent, with banks also lending at negative spreads in the first quarter. Following the abolition of the voluntary APR ceiling, the APR on market housing loans rose by only 0.1 percentage point to 6.8 per cent in August, while the long-term funding costs from four months earlier, which are relevant for repricing, rose by 0.9 percentage point over two months, bringing the spread on market housing loans back into the negative range in August (Chart 18). Over the past year, banks have consistently provided housing loans at a premium below 1 per cent on a market basis. In the longer term, interest revenues that do not cover the risk costs of lending may pose a stability risk to the financial intermediary system. With the rise of HPS Plus, under which contracts were signed at an average interest rate of 2.96 per cent up to August, the average interest rate actually payable by the customer for the total new issuance reached a better-than-market level of 5.5 per cent in August 2024, reflecting a decrease of 1.7 percentage points versus the same prior-year period.

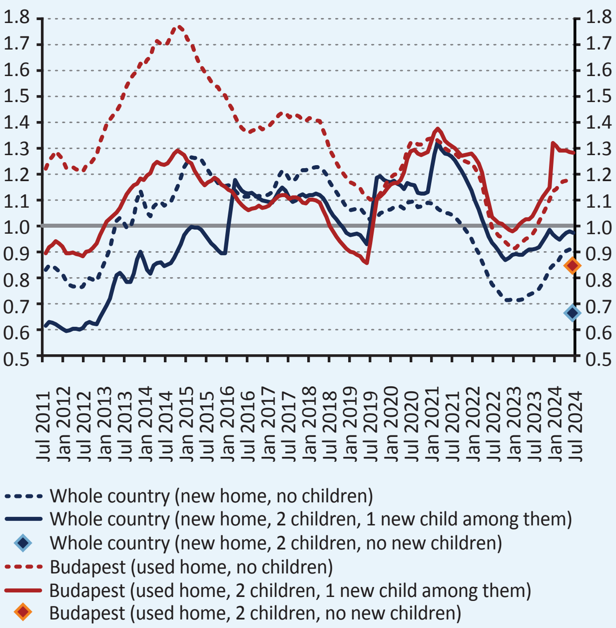
Table 1
Distribution of concluded HPS and HPS Plusz contracts based on existing and assumed children

HPS Subsidies	Number of assumed children				Total
Number of existing children	0	1	2	3	
0	-	3	10	1	13
1	13	12	5	-	31
2 or more	48	7	0	-	56
Total	62	23	15	1	100
HPS Plus loans	**Number of assumed children**				**Total**
Number of existing children	**0**	**1**	**2**	**3**	
0	-	22	37	4	63
1	-	26	5	-	30
2 or more	-	7	-	-	7
Total	-	55	41	4	100

Note: Data for HPS subsidies cover the period from 2016 Q1 to 2023 Q3 and include rural HPS subsidies. The values in the table are percentages.

Source: MNB

Chart 19
Housing Affordability Index (HAI)



Note: The HAI shows the number of times the income of a household with two average earners 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 significant risk and financial burden. Calculated for a flat of 45 square metres without a child, 65 square metres for two children. In the case of those who have a new child, the values are calculated with subsidies, but do not take into account the HPS Plus loan waiver. Parameters of the loan product, except for the interest rate, are constant. 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, MNB

From 2024, the range of beneficiaries eligible for family allowances that can be used in the housing market has been substantially reduced. With the phase-out of the HPS subsidy, the modification of the conditions for prenatal baby support loans and the fact that the HPS Plus interest-subsidised loan is now only available in the case of a commitment to children who have not yet been born, while in the case of 62 per cent of previous HPS contracts there was no commitment to having other children, we estimate that the number of households eligible from 2024 for state-subsidised housing support schemes may have reduced by two thirds. Under HPS Plus, around 7,400 subsidised loan contracts were signed until August, 63 per cent of which were for applicants without children (Table 1). 22 per cent of applicant families are still childless and have committed to 1 child, 37 per cent are still childless and have committed to 2 children, while households with 1 child, which account for 30 per cent of contracts, typically committed to having 1 additional child.

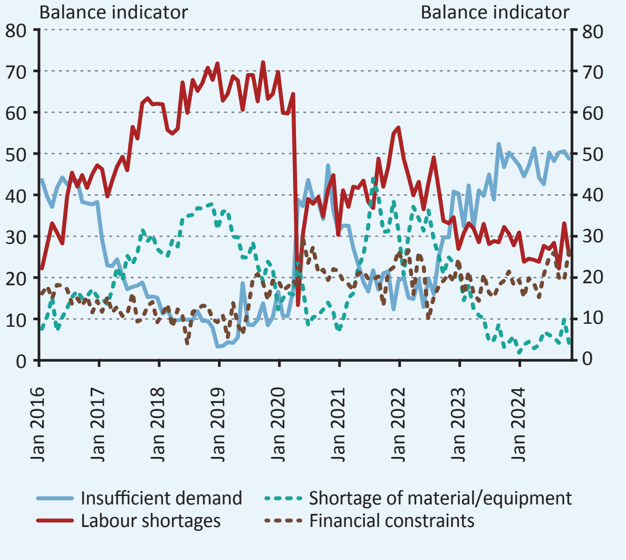
The fall in lending rates has improved the affordability of home purchases. In July 2024, compared to the same period of the previous year, the affordability of house purchases involving loans has improved significantly for both new and used homes (Chart 19). The ratio of average house prices to average earnings did not change significantly over this period, and accordingly the improvement in affordability was mainly due to a fall in the average interest rate on market housing loans. State-subsidised loans will continue to make it much easier to buy a home, along the lines of the aforementioned restrictions. For households with a new child, the availability of higher amounts of preferential-rate loans in 2024 has significantly improved the affordability of used homes in Budapest (and other high-value housing). However, for new housing, the positive effect of higher subsidised loan amounts is offset by the elimination of non-refundable subsidies and VAT refunds. For two-child families not committing to having more children, buying both a new home and an average used home in Budapest with a loan would be a significant financial strain.

4 Supply of new homes

In 2024 Q1-Q3, 8,600 new residential properties were issued occupancy permits in Hungary, a decrease of 20 per cent nationally and 18 per cent in Budapest regarding the number of homes completed compared to the same period last year. During the same period, building permits were issued for 14,600 new homes nationwide and 3,400 in Budapest, which is 2 per cent and 34 per cent less, respectively, than in the same period of the previous year. Multi-home buildings saw an 11-per cent year-on-year decrease, while detached houses saw a 14-per cent increase. Looking ahead, the low number of building permits also indicates a subdued volume of development. New housing development by construction companies is slow to adapt to the increased demand. The value of new construction contracts signed in August was 19.6 per cent lower than a year earlier, including a 27.1-per cent decrease in contracts concluded for the construction of buildings. The annual rate of increase in housing construction costs slowed from 16.0 per cent in the same period of the previous year to 5.3 per cent in 2024 Q2, with material costs also falling slightly in 2024 H1. Only a small number of banks, a net of 11 per cent, tightened financing conditions for housing projects in 2024 Q3, while most banks saw a pick-up in demand for housing project loans, which they expect to continue to strengthen in the near future.

The volume of new housing development is stagnating at a low level in Budapest and in rural areas, with a total of 41,000 homes in condominium projects under development in the capital in 2024 Q3, representing a 9-per cent year-on-year decline. The share of homes with building permits but not yet under construction remains high at 43 per cent. In the third quarter, sales of 569 homes started in a very small number of projects, 16 in total, which is 31 per cent below the low level of the same period last year. At the same time, the number of new homes for sale in Budapest has fallen to 6,225. However, turnover picked up significantly in both rural areas and in Budapest, with year-on-year increases of 36 per cent and 118 per cent, respectively. The average price per square metre of a newly constructed homes in the capital was HUF 1.53 million at the end of 2024 Q3, an annual price increase of 5 per cent.

Chart 20
Constraints on construction output



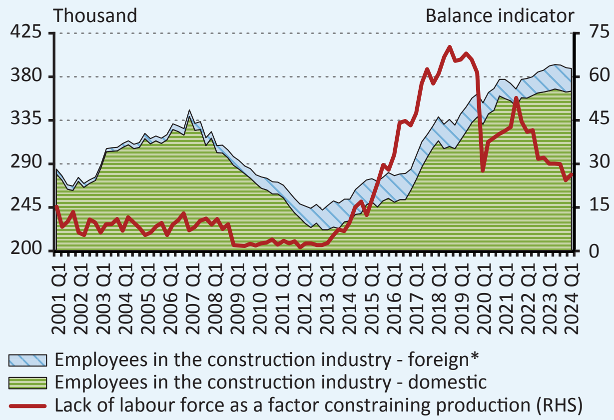
Note: Seasonally adjusted data. The data series runs until October 2024.

Source: European Commission

4.1 RISING HOME CONSTRUCTION COSTS ARE NOW HOLDING BACK INVESTMENT GROWTH TO A LESSER EXTENT

Insufficient demand continues to be mostly responsible for hindering the performance of construction companies. In recent months, the largest share of construction companies, around 45–50 per cent, cited insufficient demand as the main constraint on construction output. The housing market has not yet seen a noticeable recovery in demand for housing development projects, and slow adjustment in supply has been observed. Labour shortages came in second place, being cited by 25–30 per cent of construction companies, while financial constraints were a difficulty for only 15–30 per cent of respondents (Chart 20). As supply chain frictions have eased in recent years, shortages of raw materials and equipment have become less of a problem, with output at less than 10 per cent of companies hampered by this factor in recent months.

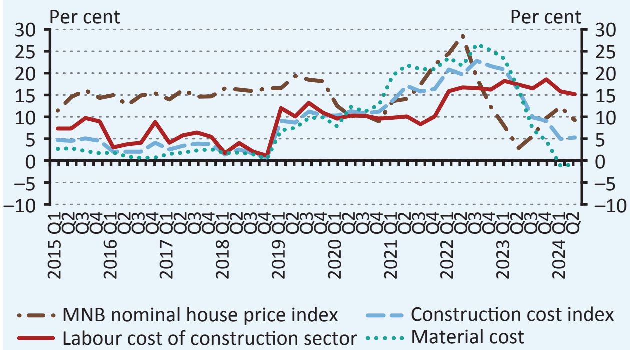
Chart 21
Number of employees in the construction industry



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

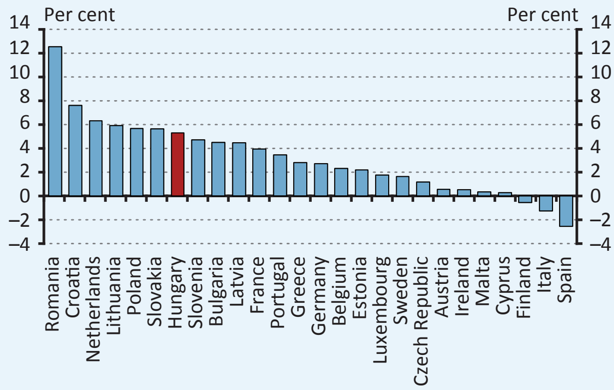
Source: HCSO, MNB, European Commission

Chart 22
Annual change in home construction costs and nominal house prices



Source: HCSO

Chart 23
Annual change in home construction costs in EU countries in 2024 Q2



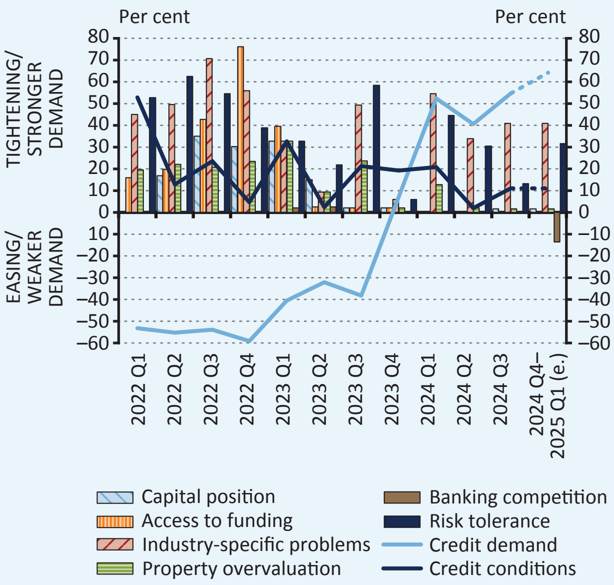
Note: No data available for Denmark.

Source: Eurostat

Employment in construction fell slightly in 2024 Q2. The number of persons employed in domestic construction in 2024 Q2 was 365,000, while the number of persons employed abroad with domestic households was 24,000, representing stagnation for the former and an 8-per cent decrease for the latter versus the same period of the previous year (Chart 21). The number of persons employed in construction has fallen only slightly, reflecting the acute shortage of skilled labour in the sector. Companies are reluctant to make redundancies despite the decline in orders and lower production in the sector, given the difficulty in finding workers. According to the European Commission's survey (ESI), a high proportion of construction companies, around 30 per cent, are hoarding labour force, meaning they expect their number of employees to stagnate or grow despite a fall in output. In August 2024, the volume of construction output declined by 6.0 per cent year-on-year. The value of new contracts signed fell by 19.6 per cent in August, with contracts for the construction of buildings down 27.1 per cent and those for the construction of other structures down 11.1 per cent on an annual basis.

Housing construction costs in Hungary have risen at a more moderate pace, but the increase is still high by EU standards. The annual rate of increase of the housing construction cost index slowed from 16.0 per cent in the same period of the previous year to 5.3 per cent in 2024 Q2 (Chart 22). Contributing to the moderation, material costs fell slightly in 2024 H1, while the annual dynamics of labour costs in construction slowed to 15.2 per cent at the end of the second quarter. The increase in housing construction costs in Hungary is in the top third of the international ranking (Chart 23). On average, home construction costs in the European Union increased by 2.5 per cent year-on-year.

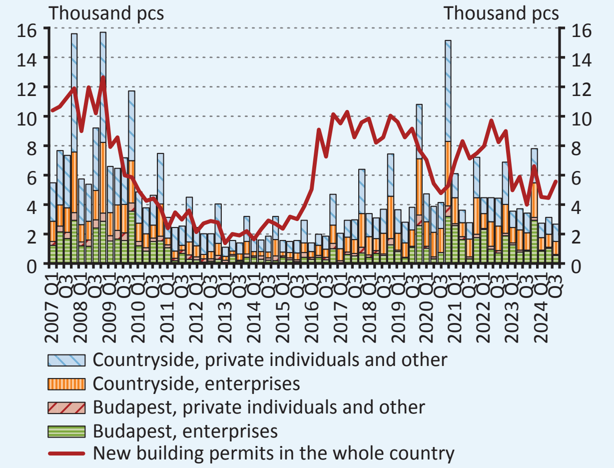
Chart 24
Housing project loan conditions and changes in demand



Note: Net ratio of the difference between tightening and easing and banks indicating stronger and weaker demand weighted by market share. The factors underlying credit conditions apply to commercial real estate loans overall.

Source: MNB, based on banks' responses

Chart 25
Distribution of new completions by location and developer



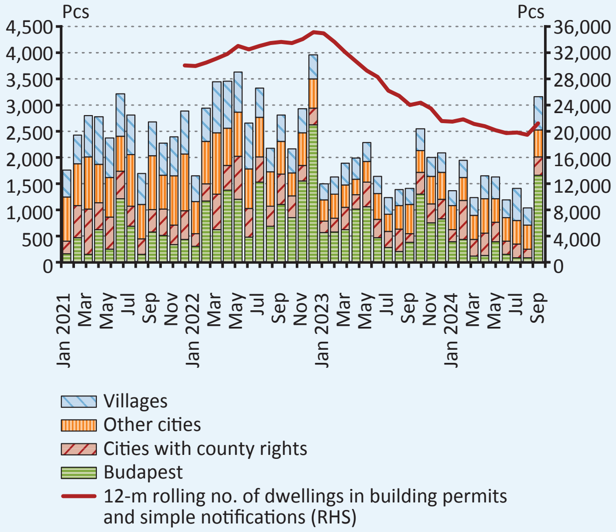
Source: HCSO

In 2024 Q3, most banks saw a pick-up in demand for housing project loans, which could continue. Based on responses to the Lending Survey, a net 11 per cent of banks tightened the conditions of their housing project loans in 2024 Q3. Challenges facing the industry were the most frequently cited factor behind the tightening of commercial real estate lending. Looking ahead to 2024 Q4 and 2025 Q1, a similar proportion of banks foresee further tightening in housing project lending, with industry-specific risks and banks' declining risk tolerance likely to be more pronounced (Chart 24). At the same time, 55 per cent of banks reported a net increase in demand for loans to finance housing projects in 2024 Q3, and 64 per cent of institutions expect a further recovery in this segment in the next six months.

4.2 EVEN FEWER HOMES MAY BE BUILT IN 2024 THAN LAST YEAR

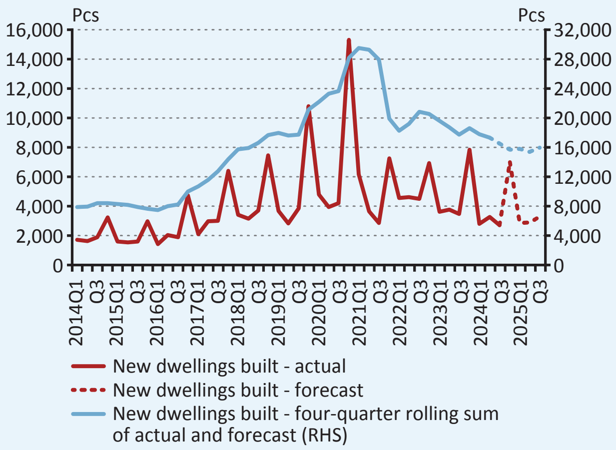
In 2024 Q1-Q3, the number of homes completed fell by 20 per cent nationally and by 18 per cent in Budapest compared to the same period in 2023. In 2024 Q1-Q3, 8,600 new residential properties were issued occupancy permits in Hungary, down 20 per cent versus the same prior-year period. The last time a lower first half-year figure was recorded was in 2017 (Chart 25). The number of homes completed dropped by 18 per cent in Budapest and by 21 per cent in other towns and villages in the period under review. In Budapest, 92 per cent of newly completed dwellings were constructed by businesses, while in other towns and villages this figure was only 44 per cent. The number of residential properties (mainly detached houses) commissioned by natural persons fell by 15 per cent outside the capital and by 30 per cent in Budapest in 2024 Q1-Q3 on an annual basis. The number of home completed in the January-September 2024 period fell by 16 per cent in Budapest and by 28 per cent in rural areas for contractor-built dwellings. The 12-month rolling number of home completions at the end of the first half of the year was 7 per cent lower than a year earlier. In Hungary, the number of new residential completions in the year to the end of September 2024 was equivalent to 0.36 per cent of the housing stock at the end of 2022. This renewal rate is less than one half of the European average (0.89 per cent) and the average for the V3 countries in 2023 (1.05 per cent).

Chart 26
Number of dwellings in building permits issued and simple notifications



Source: HCSO

Chart 27
Forecast for the number of dwellings receiving occupancy permits

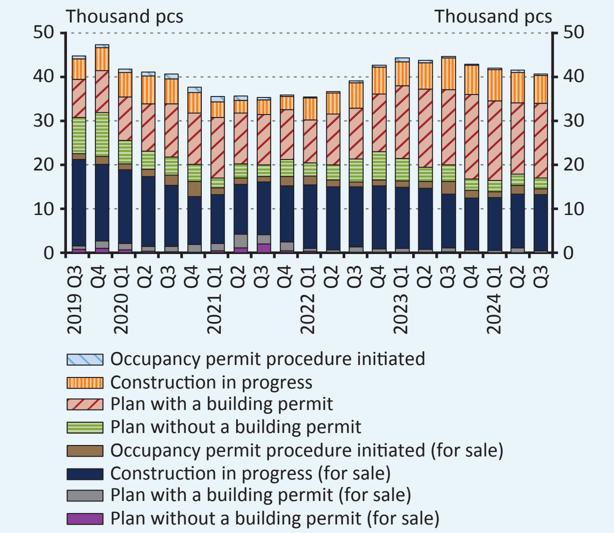


Source: HCSO, MNB

In the first three quarters, the number of building permits issued fell slightly in Budapest, but increased overall in the other types of settlement. The downward trend in the 12-month rolling number of building permits issued and simple residential construction notifications in Hungary since January 2023 was first broken by the September 2024 data (Chart 26). In 2024 Q1-Q3, 14,600 new homes received a construction permit in the capital, down 2 per cent on the same period of the previous year. During the same period, the number of dwellings covered by building permits fell by 11 per cent for multiple-home buildings and rose by 14 per cent for single-home buildings (detached houses), for which building permits are required, in an annual comparison. The number of dwellings planned on the basis of a simple notification was also 14 per cent higher than one year earlier in the January-September 2024 period. In the capital, 3,400 new homes received building permits in the first three quarters of the year, one third less than a year earlier. Compared to the first three quarters of the previous year, the number of homes registered in municipalities increased by 20 per cent, in cities without county rights by 15 per cent and in cities with county rights by 7 per cent. In 2024 Q3, 5,600 homes were issued building permits nationwide, up 39 per cent year-on-year. The improvement in housing construction propensity is most visible in building permits in Budapest, where the number of homes issued building permits in the third quarter rose by 116 per cent year-on-year, but also in municipalities, where the number of homes issued such permits increased by 66 per cent.

Housing construction is expected to fall this year and to increase only slightly in 2025. We forecast new construction to fall by 11 per cent in 2024 Q4 compared to the same period last year. For the year as a whole, 15,700 homes are expected to be completed (-16 per cent year-on-year), a lower figure than last seen in 2017 (Chart 27). In 2025 Q1-Q3, we still expect only a slight annual growth of 3 per cent. The expected dynamics are consistent with the lagged responsiveness of housing supply to changes in demand, also due to construction time.

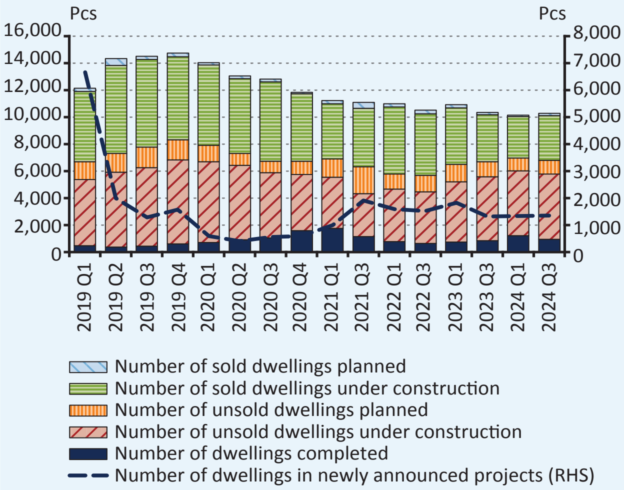
Chart 28
Housing stock under development in Budapest



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

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

Chart 29
Number of dwellings in new condominium projects for sale in the countryside



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

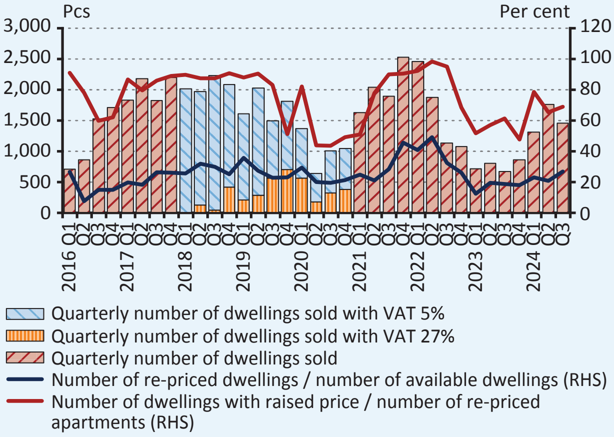
Source: ELTINGA – Countryside Housing Market Report

4.3 DEMAND FOR NEW HOMES HAS PICKED UP WITH STAGNATING DEVELOPMENT VOLUMES AND RISING PRICES

The volume of new home developments in the capital is stagnating at a low level. In Budapest, a total of 41,000 homes in condominium projects were under development in 2024 Q3 (at least with building permit procedures started), representing a slight decrease of 2 per cent and 9 per cent in quarter-on-quarter and year-on-year terms, respectively. The share of housing under development for which building permits have been obtained but construction has not yet started remains high at 43 per cent. During the quarter, 37 per cent of homes under development were advertised for sale, which is unchanged compared to 2023 Q3 (Chart 28). While in 2024 H1, 1,500 to 2,000 new homes were put on the market each quarter, in 2024 Q3, an extremely low number of 569 homes were placed for sale on the market, 31 per cent below the low level of the same period of the previous year (Annex, Chart 15). This reduced the number of new homes still available for purchase to 6,225. New homes newly launched in the market in the third quarter included 16 projects, 10 of which contained less than 10 units.

In rural areas, the number of new homes under development and the number of new homes available for purchase is essentially stagnating in year-on-year terms. In rural areas, 9,332 housing projects were under development and for sale in 2024 Q3, down 2 per cent year-on-year. For the vast majority of homes under development and for sale (87 per cent), construction has already started. In 2024 Q2 and Q3, we estimate that a total of 1,665 new condominium flats were sold in the countryside, up 38 per cent from a year earlier. During the same period, 1,329 new dwellings were placed on the market, bringing the stock of available dwellings to 6,770 homes in September 2024, following a 2-per cent annual increase (Chart 29). In the countryside, the largest number of dwellings under development is in Somogy county, which typically includes projects around Lake Balaton, with around 1,542 homes, followed by projects in Győr-Moson-Sopron and Pest counties with 1,388 and 1,021 homes, respectively.

Chart 30
Number of new homes sold in Budapest and ratio of repricing within the advertised new homes



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

Source: ELTINGA – Budapest Housing Market Report

The market of new homes in Budapest picked up significantly in 2024. In Budapest, 2024 Q2 saw a high number of housing sales, with around 1,757 new homes sold. In 2024 Q3, turnover was more subdued but still strong: 1,449 newly built condominiums (including pre- and final contracts) were sold, up 118 per cent on the very low level from the same quarter last year, but down 18 per cent on the previous quarter. The low share of newly built homes in the rental market is described in more detail in Box 2. In the third quarter, the share of repriced homes in the stock of available dwellings continued to rise, from 20 per cent in the previous quarter to 27 per cent (Chart 30). The growing majority of price corrections, around 69 per cent, covered increases. The average price per square metre of a newly constructed homes in Budapest was HUF 1.53 million at the end of 2024 Q3, showing an annual price increase of 5 per cent.

Box 2

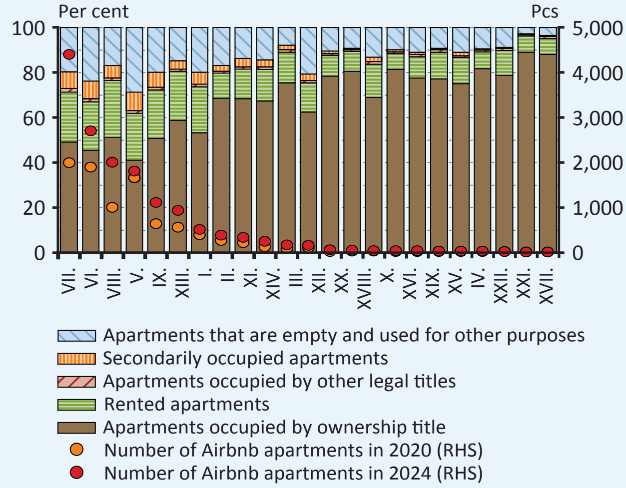
CHARACTERISTICS OF THE BUDAPEST RENTAL MARKET – ANALYSIS OF THE SHORT-TERM AND LONG-TERM RENTAL HOUSING MARKET

According to census data, there are 4 million occupied dwellings in Hungary, 90 per cent of which are owner-occupied and 9 per cent are rented. Sublets are typically found in larger cities and county seats, with the highest proportion of occupied dwellings in some inner-city districts of the capital, where one in three occupied dwellings are rented as sublets. Since new housing developments in Hungary are concentrated in the capital, we have analysed the extent to which modern, energy-efficient new housing appears on the rental market in Budapest based on detailed housing data from the 2022 census. We also look at short-term rentals, which have a significant impact on the supply and pricing of the market of rental dwellings in Budapest, and recent regulations affecting them.

Short and long-term rental housing stock in Budapest

According to the latest census by the HCSO, there are approximately 800,000 occupied and 161,000 unoccupied dwellings in Budapest. 91 per cent of the occupied dwellings are owned by Hungarian citizens, 3 per cent by foreigners, 2 per cent by other owners (e.g. businesses) and 4 per cent by municipalities. In the capital, 18 per cent of the occupied dwellings, about 140,000 dwellings, are used as sublets, with the highest proportion in the inner-city districts (V, VI, VII, VIII), where one in three occupied dwellings is a sublet. Budapest also has a relatively high proportion of unoccupied dwellings and dwellings used for other purposes (e.g. offices), which presumably include dwellings rented out on a short-term basis. Unoccupied dwellings account for roughly 13 per cent of Budapest's housing stock, with even higher proportions in Districts V, VI and VII, at 24, 19 and 18 per cent, respectively.

Distribution of housing stock in Budapest according to residential title in each district



Note: Secondarily occupied apartments include apartments that are used seasonally, such as vacation homes.

Source: HCSO Census 2022, airdna.co

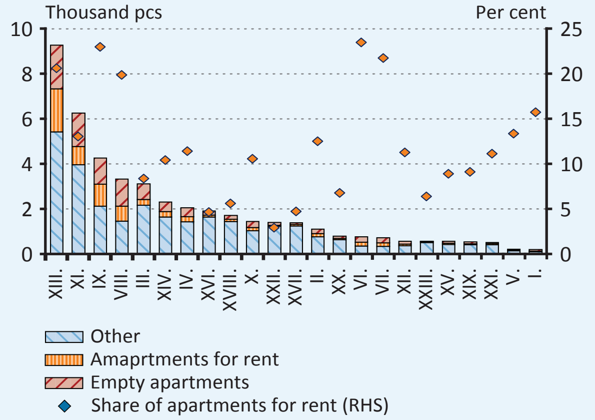
According to airdna.co, by 2024 there will be around 15,000 Airbnb properties in Budapest, a 66-per cent increase compared to 2020. In the city centre, the largest number of short-term rentals is found in District VII, with around 4,400 apartments, but Districts VI, VIII and V also have an outstanding number of short-term rentals, with 2,700, 2,000 and 1,800 apartments, respectively. As a result of the referendum held in District VI in September 2024, the municipality of Terézváros will reduce the number of days available for rentals for other and private accommodation to zero, effective from January 2026. Under the New Economic Policy Action Plan, the government will introduce a two-year moratorium on issuing new Airbnb licences in Budapest from 2025, and the annual flat rate tax on private accommodation will rise from HUF 38,400 to HUF 150,000. The effect of the ban on short-term rentals in District VI may shift some of the rentals rented out this way to the long-term rental market, thereby increasing the supply of sublets and reducing the local dynamics of sublet prices. These government tightening measures could reduce investment demand in the capital.

According to the 2022 census, 1.65 million persons live in Budapest and 16 per cent of them, around 263,000 persons, are renters. The proportion of persons living in sublets is over 30 per cent in inner-city districts and under 10 per cent in outer districts. In the capital, 28 per cent of renters live in a municipally-owned apartment, but there are significant differences between districts: while the share of municipal tenants is 42 per cent in District XV, it is only 5 per cent in District II. Young people tend to rent homes in the inner-city districts, with one in three apartments in Districts V and VI rented by persons under 30, but the share of renters under 30 is also above 20 per cent in the other inner-city districts. At the same time, 42 per cent of the housing occupied by young people in Budapest is rented in the form of sublets, with the proportion reaching 60 per cent in Districts V and VI. The affordability of housing prices is illustrated by the fact that while the share of sublets in homes occupied by persons aged over 40 is 7 per cent nationally, it is 13 per cent in Budapest, and even higher in the city centre, at over 20 per cent.

New homes in Budapest

5 per cent of the housing stock in the capital, around 45,000 dwellings, was built after 2016, and is considered as new-build dwellings. The largest number of new dwellings, around 9,300, is in District XIII, followed by Districts XI and IX, where 6,300 and 4,300 dwellings have been built since 2016, according to Census data. According to the Census, 21 per cent of new homes in Budapest are unoccupied, but it is also likely that this category includes housing used for short-term rentals. District VIII has the highest vacancy rate of 36 per cent, but Districts I, VI and VII also have vacancy rates above 30 per cent, although the number of new dwellings is low. In Budapest, 14 per cent of newly built homes are rented out as sublets, but in some inner-city districts (VI, VII, VIII, IX, XIII) this share reaches 20 per cent. The share of sublets for apartments built in Budapest before 2016 is 17 per cent, and for all districts, older apartments account for a higher share of sublets than new apartments. Overall, in most districts of Budapest, the share of sublets in new dwellings is lower than the share of unoccupied dwellings, including short-term rentals, with the most significant difference in District VIII, where the share of sublets is 16 percentage points lower.

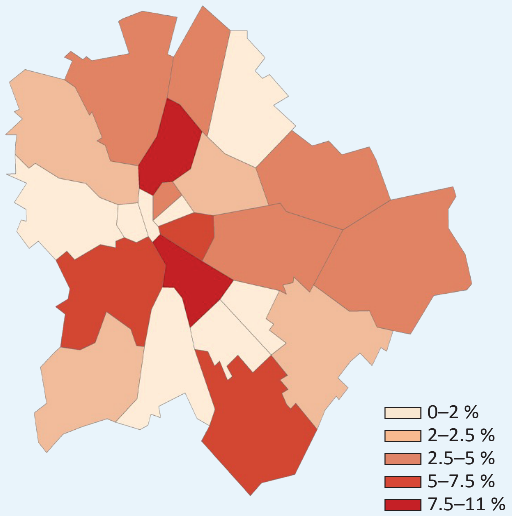
Distribution of newly built apartments in Budapest by apartment use



Source: HCSO Census 2022

Only 4.5 per cent of sublets in Budapest are newly built homes, while in Districts XIII and IX, where most new flats have been built, the proportion is significantly higher, at 11 and 10 per cent, respectively. In Districts XI and VIII, the share of new homes within sublets is 7 and 5 per cent, respectively.

Proportion of new apartments within sub-lettings in the districts of Budapest



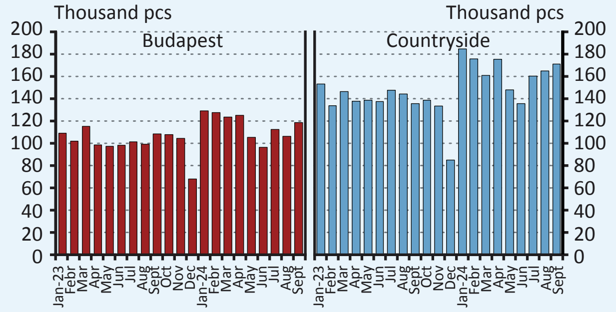
Source: HCSO Census 2022

Dwellings rented out as sublets account for around 15 per cent of the housing stock in Budapest, while the share of unoccupied dwellings and short-term rentals reaches 13 per cent. The 140,000 long-term rentals significantly exceed the number of short-term rentals, and the latter are concentrated, typically in inner-city districts. The expected tightening of Airbnb rentals could reduce investment demand in Budapest, while the ban on District VI could push homeowners towards long-term rentals, adding good quality properties to the rental supply. Young people prefer to live in inner-city districts, but a higher proportion live in sublets there than in outer districts. In Budapest, only 5 per cent of the housing stock was built after 2016, and the location of these new dwellings is concentrated. Only 14 per cent of new dwellings in the capital are rented out as sublets, while 17 per cent of older dwellings are rented out on a long-term basis.

5 Charts in the annex

1 HOUSING MARKET DEMAND AND HOUSE PRICES

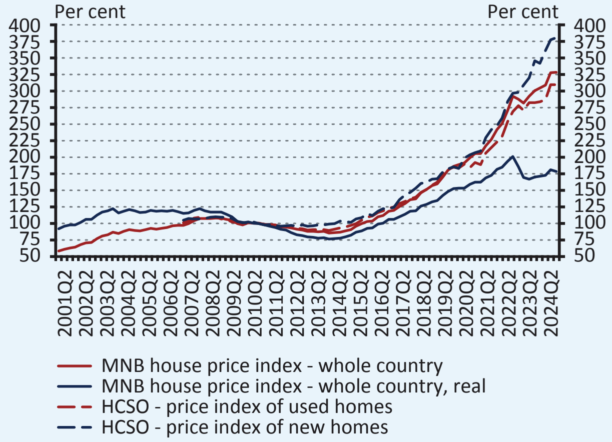
Chart 1
Demand for apartments and houses for sale at the advertising site ingatlan.com



Note: Based on the number of disclosed phone numbers and calls initiated through mobile application.

Source: Ingatlan.com

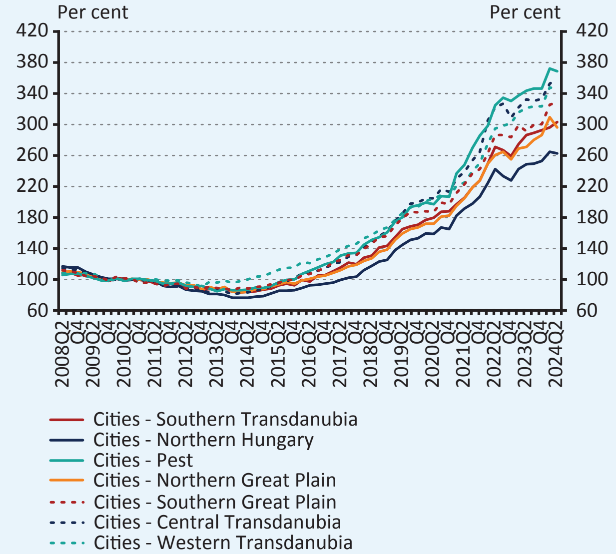
Chart 2
Nominal and real MNB house price index and the HCSO house price indices (2010 = 100 per cent)



Note: Real price index deflated by the consumer price index.

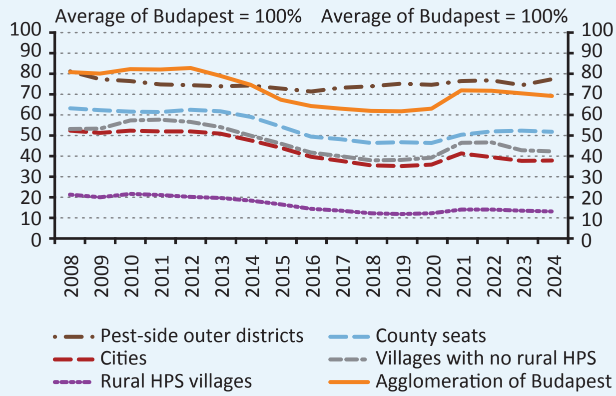
Source: MNB, HCSO

Chart 3
Nominal MNB housing price indices for the cities of each region (2010 = 100 per cent)



Source: MNB

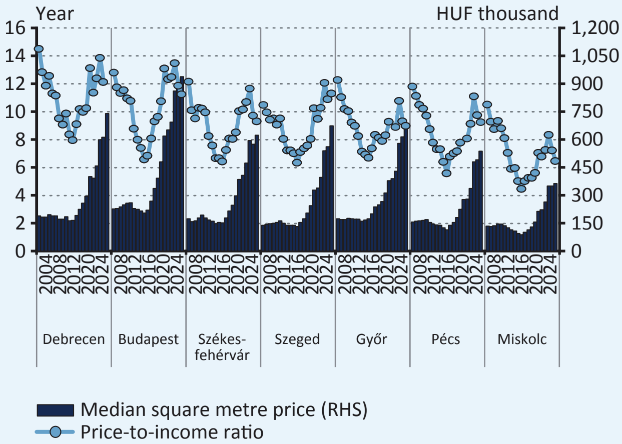
Chart 4
Average square metre price by type of settlement



Note: Outer districts of Pest: IV, XV, XVI, XVII, XVIII, XXI, XXIII.

Source: NTCA, MNB

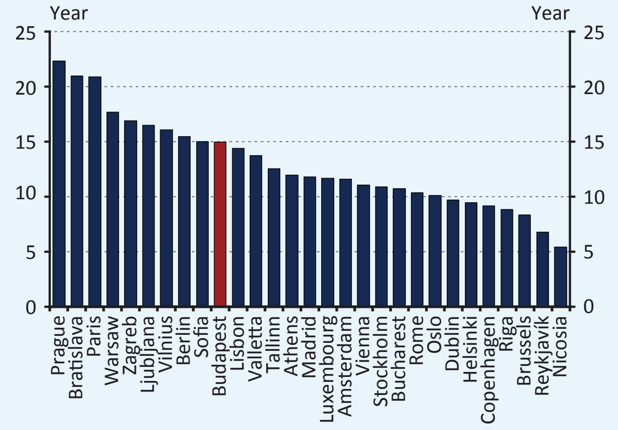
Chart 5
Price-to-income ratio in Hungary's regional centres



Note: The price-to-income ratio is the ratio between the Q2 price of a 75-square metre median real property (new and used total) and average Q2 net income of the households. Average incomes are county-level data.

Source: HCSO, MNB

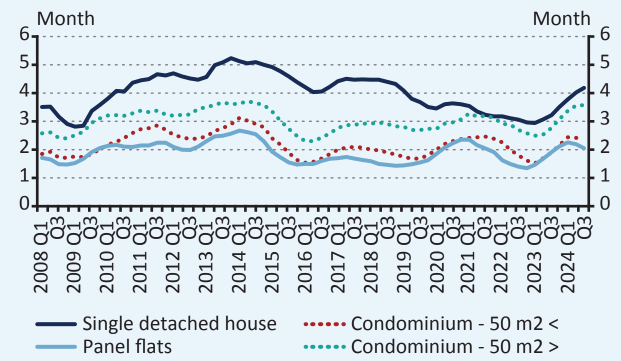
Chart 6
Price-to-income ratios in European capitals (2024 Q3)



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. Budapest is marked in a different colour.

Source: Eurostat, numbeo.com

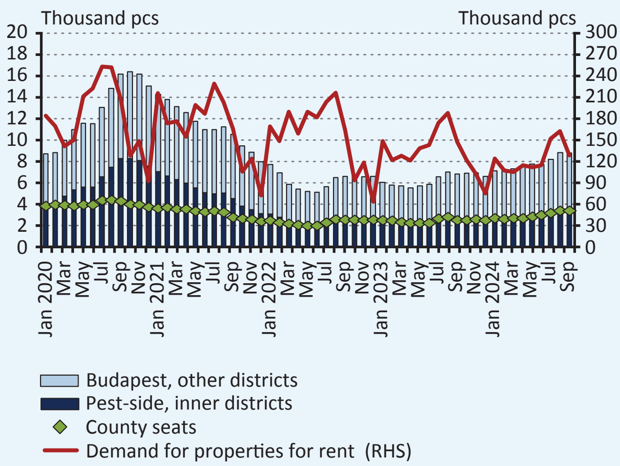
Chart 7
Median time to sell residential property by type of property



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

Source: MNB, housing agent database

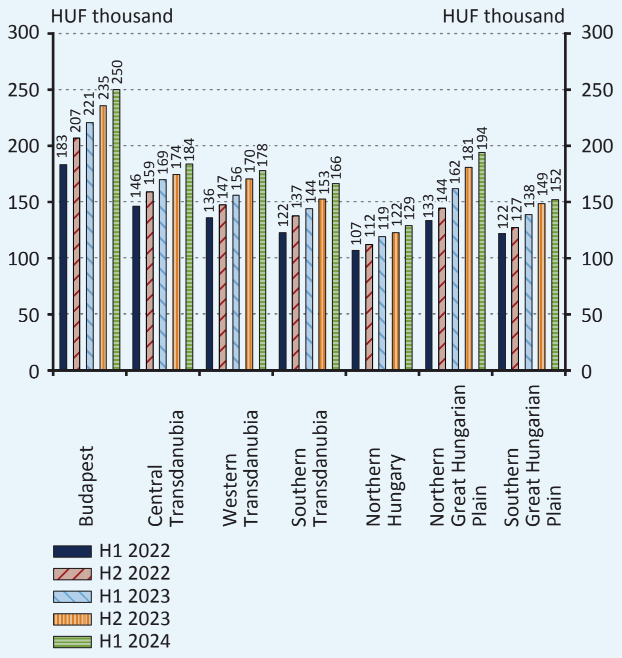
Chart 8
Supply of residential properties to let at ingatlan.com on the last day of the given month and demand for properties for rent in that month



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

Source: ingatlan.com

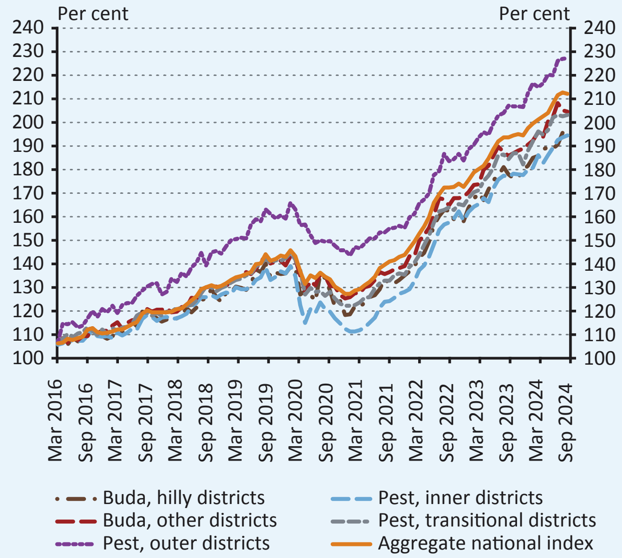
Chart 9
Average monthly rents based on flats to rent advertised on ingatlan.com



Note: Based on the ads removed from the page in the given period.

Source: HCSO-ingatlan.com

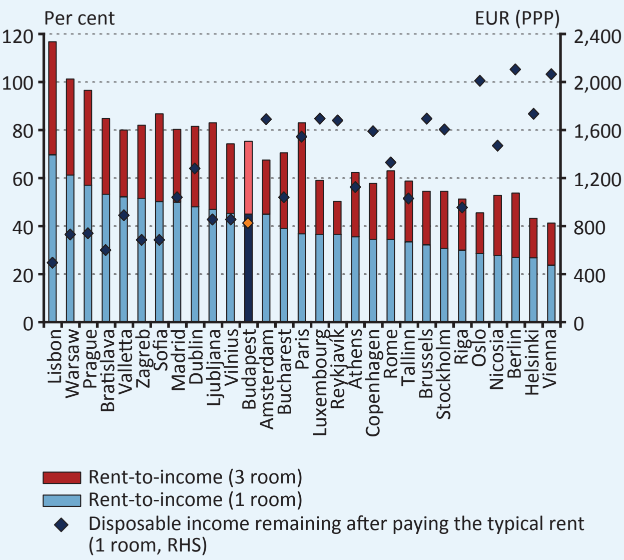
Chart 10
Rent indices of groups of districts in Budapest based on flats to rent advertised on ingatlan.com (2015 = 100 per cent)



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

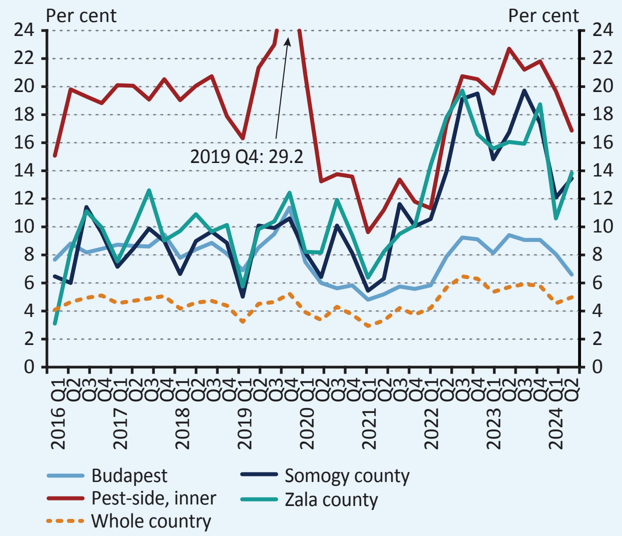
Chart 11
Rent-to-income ratio in European capitals (2024 Q3)



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. Budapest is marked with a different colour.

Source: Eurostat, numbeo.com

Chart 12
Ratio of foreign buyers in some priority regions' housing markets

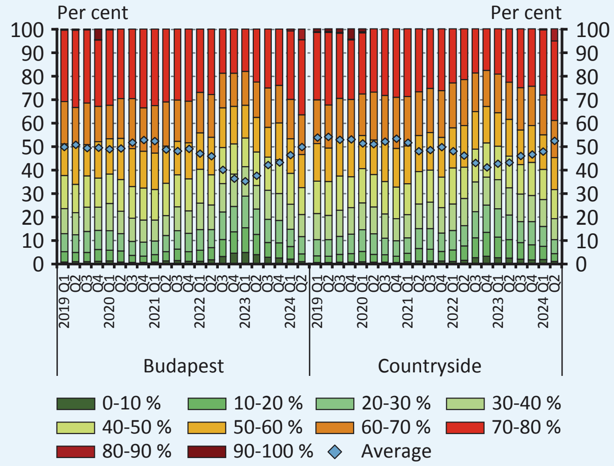


Note: Pest, inner districts: V., VI., VII., VIII., IX.

Source: NTCA

2 HOUSING LOANS AND HOUSING SUBSIDIES

Chart 13
Distribution of new housing loan disbursement by LTV

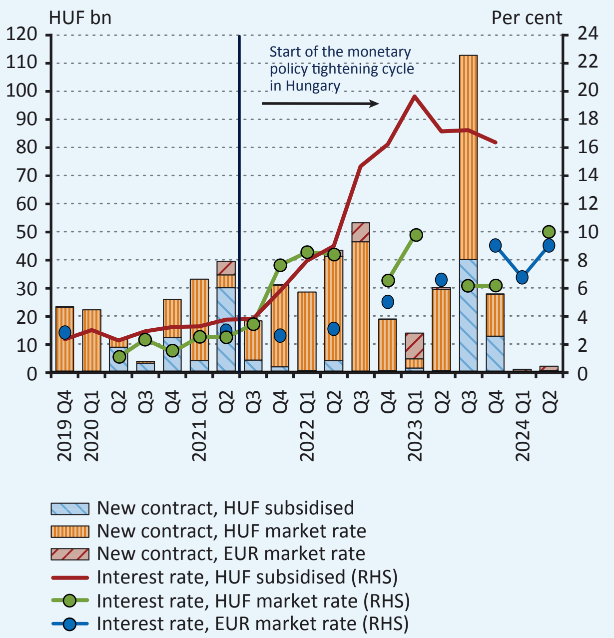


Note: Volume-based distribution.

Source: MNB

3 SUPPLY OF NEW HOMES

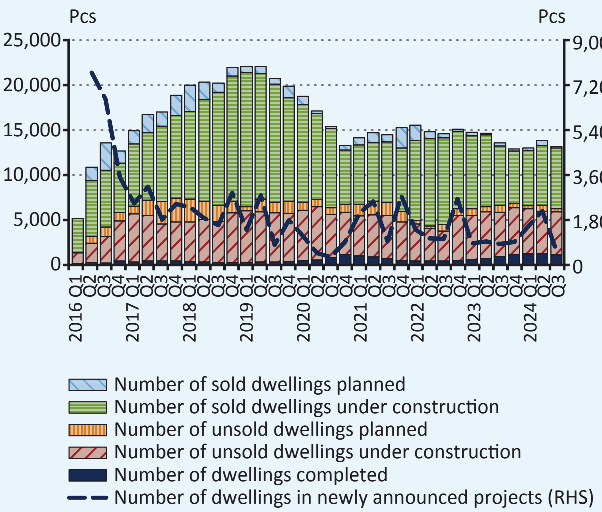
Chart 14
Housing project loan contracts of credit institutions and average transaction interest rates on new housing project loans



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), Baross Gábor Programme. Where no average interest rate is indicated in the chart, the data supply for the period did not contain new loan agreements with interest rate information.

Source: MNB

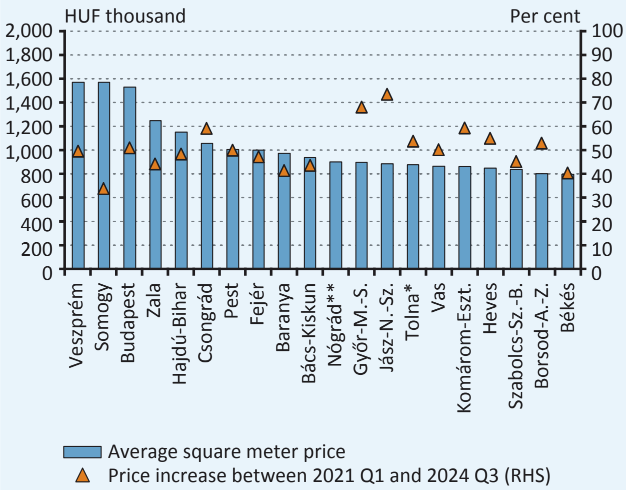
Chart 15
Availability of homes in new projects under development and sale in Budapest and the number of new announcements of dwellings



Note: Based on projects for at least four new dwellings in Budapest.

Source: ELTINGA – Budapest Housing Market Report

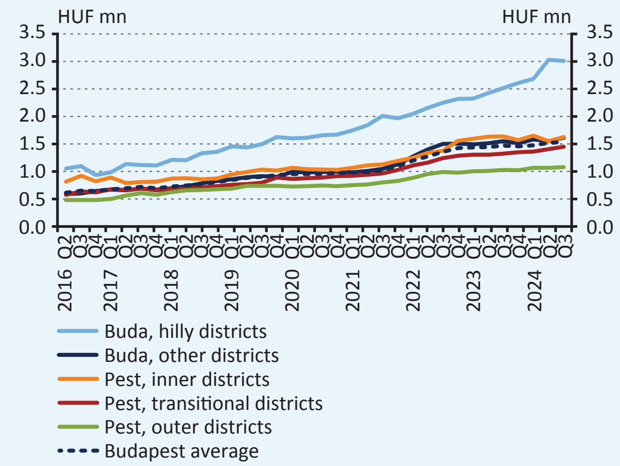
Chart 16
Development of the average square meter price of new dwellings in 2024 Q3



*Note: Based on condominium developments comprising more than ten dwellings in rural areas and more than four dwellings in Budapest. *Data for 2020 Q3 are not available in Tolna county. *For Tolna county, compared to data for 2022 Q3. **Nógrád county has no data for an earlier date.*

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

Chart 17
Average square metre price of available new dwellings in Budapest



Note: Based on projects for at least four new dwellings in Budapest. Buda hills 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: ELTINGA – Budapest Housing Market Report

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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