HOUSING MARKET MONITOR

2019 / Q4

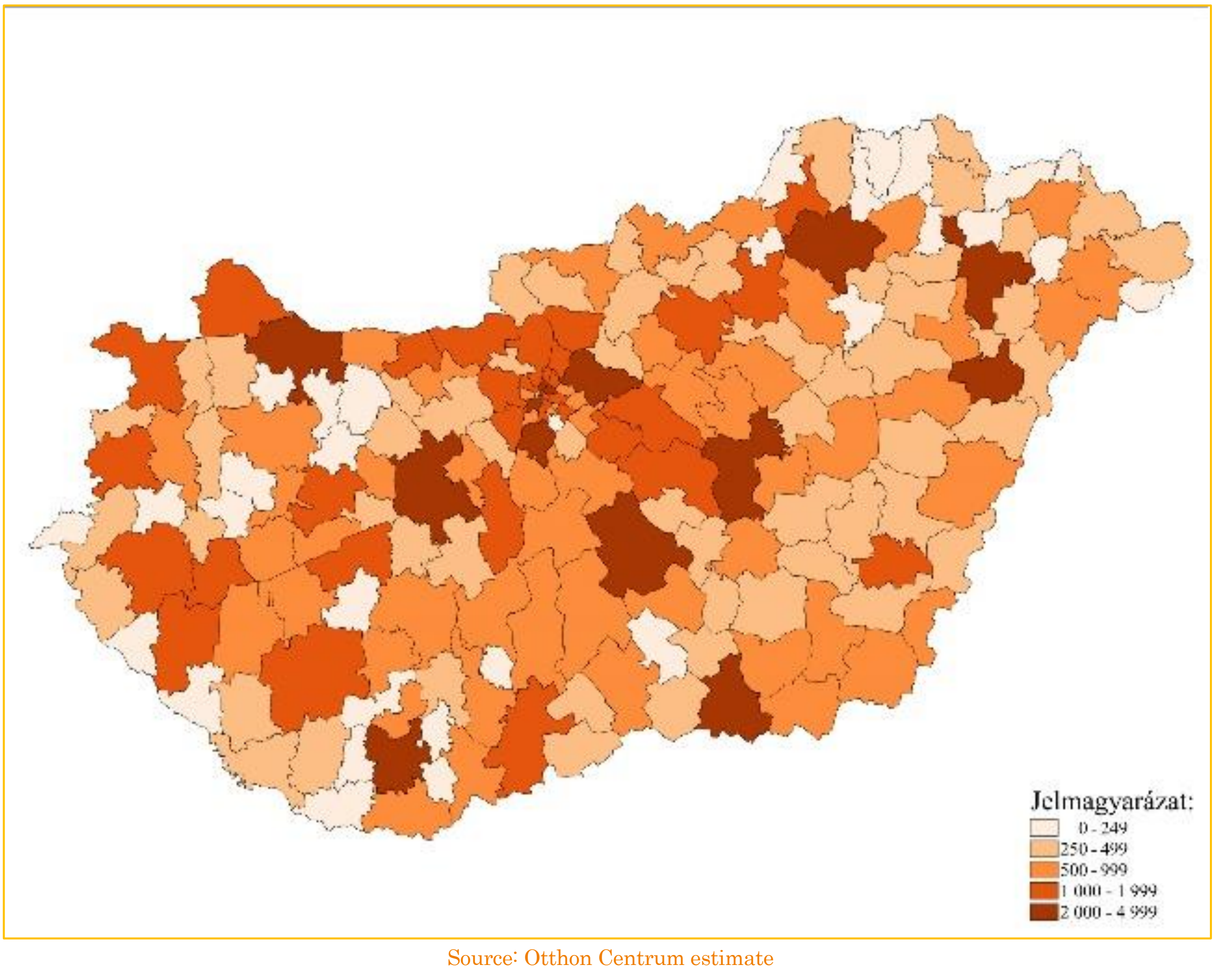
OTTHON CENTRUM

2019: A HOUSING MARKET SLOWDOWN

Since the end of the global economic crisis the highest number of housing sale-purchase agreements were signed in 2018. Transactions reached the average level of activity observed during the years before the crisis. According to the preliminary estimation of Otthon Centrum the continued growth obeserved since 2014 stopped in 2019. The volume of deals concluded even decreased slightly compared to the previous year. Growth was fuelled by cheap mortgages and low yields that made housing investments attractive among investors, especially dwellings in the larger cities and the capital city of Budapest. The introduction of MÁP+ a government security with favorable yield has changed the mind of investors, while the news of a new loan instrument for young families planning a child kept some families looking for homes away from the market until further details were cleared.

During 2019 low interest rates, simplified lending procedures (more transparency as a result of regulation), combined with accelerating wage growth have fuelled housing demand. The expiration of reduced VAT for newbuilt units on the other side increased uncertainity over how prices will develop: many thought the end-of-year discount adverts signal a major price hike to come in this segment. Despite this Otthon Centrum has not registered major drop in the number of new project starts compared to the previous year. Nevertheless the market restructures as new projects bring products with 27% VAT but several ones sell at 5%. It is not only the VAT decides the final price that developers will ask for their units.

NUMBER OF HOUSING TRANSACTIONS BY DISTRICTS (2019)

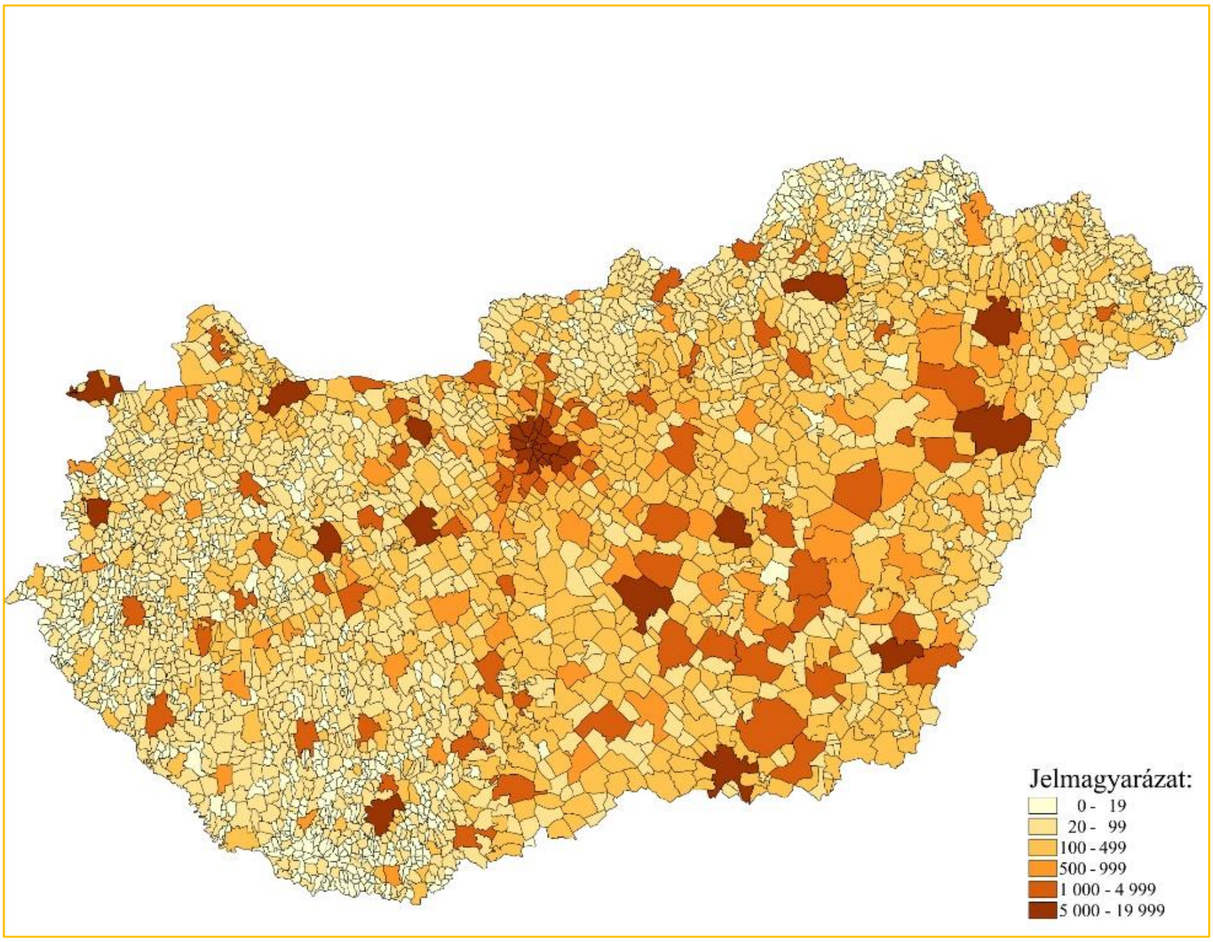


Source: Otthon Centrum estimate

In 2019 most transactions were registered in Budapest and in the county towns. Suburbanization increased as more and more households moved out from their city apartments into single family houses in metropolitan areas, benefiting from the property price difference between towns and villages. Mapping transactions reveal the main market activity corridors along the key transit axes, main roads and motorways. Also larger settlements clearly stand out: higher number of residents mean more potential buyers on the demand side, whereas more properties mean larger supply of dwellings for sale.

Geographical location plays significant role in determining the intensity of market activity: people tend to move where local economy is booming, livelihood conditions are favorable, new jobs are created. People moving sooner or later translate to transactions. Government subsidies continued to play a significant role during 2019. A new element of the subsidy available for families was introduced targeting a specific group of settlements. This specific measure was available for purchases of dwellings in small villages with a diminishing number of residents. On one hand property prices in such villages are much cheaper than elsewehere, thus the subsidy considerably increases the purchase power of beneficiary households with children. On the other hand there are multiple reasons why people tend to leave these villages behind. In our estimate only those settlements will prove attractive that are commuting distance from cities offering jobs and income for the families who decide to take advantage of the subsidy and move. Below the map shows all transactions between 2014 and 2018 by settlements. Comparing this with a map showing the internal migration (t.i. the number of people moving in and out of settlements per 1000 inhabitants) shows strong correlation between migration and transactions, which is not a surprise given the decline of the overall population of the country.

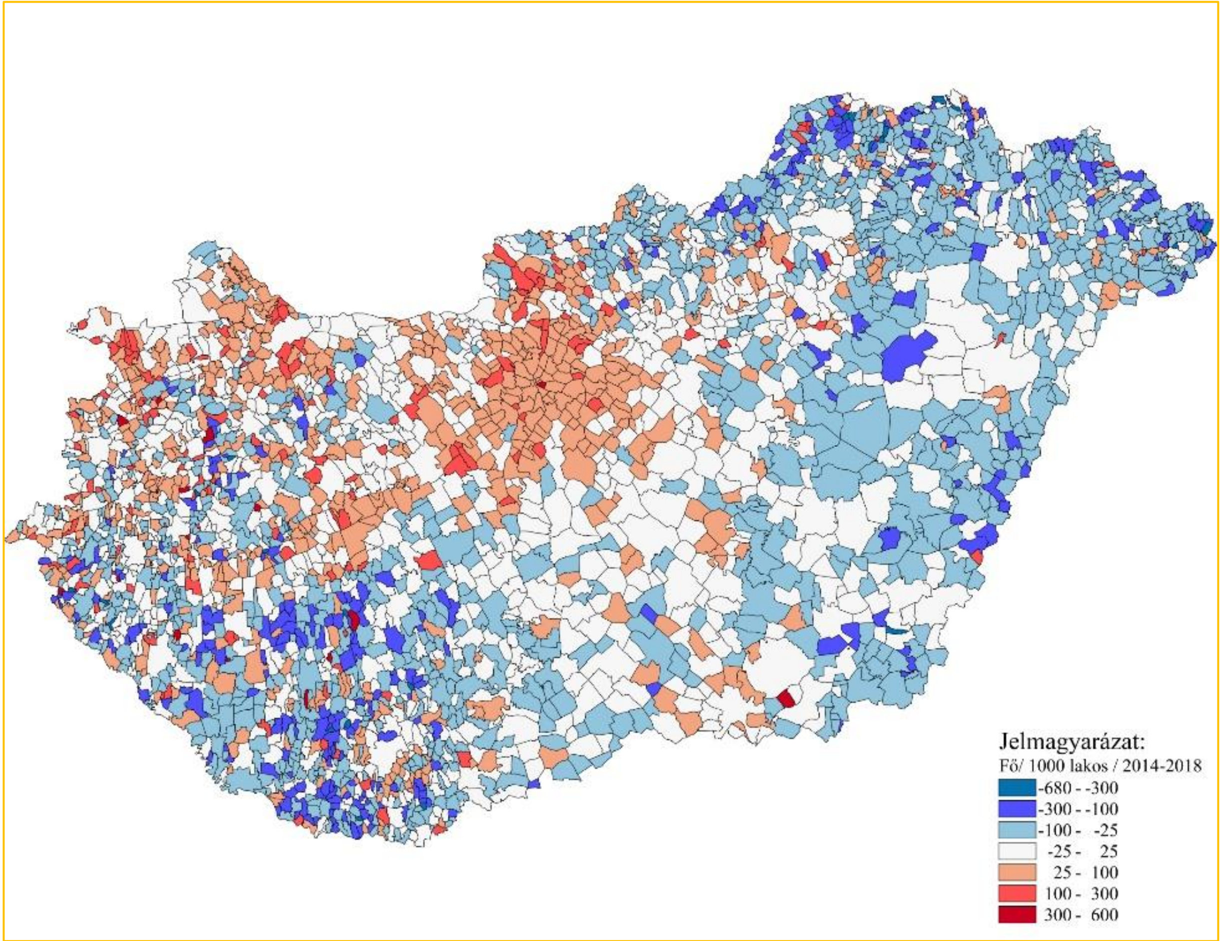
TOTAL NUMBER OF TRANSACTIONS 2014-2018



Source: CSO

Using several years aggregate data clearly reveals the depopulation trends especially in border regions – except along the border with Austria – and the ’inner peripheries’ – South-Transdanubia and North-East Hungary – regions people tend to leave behind. There is a stark contrast between these parts of the country and the greater metropolitan area of the capital city of Budapest, North-West Hungary, particularly Győr-Moson-Sopron County and the number one holiday region, comprising the settlements around the Lake Balaton. These are the most popular targets for people moving to improve their living standards. Besides the clear impact of migration patterns the size of settlements also determine the annual volume of transactions.

ACCUMULATED MIGRATION BALANCE PER THOUSAND INHABITANTS 2014-2018

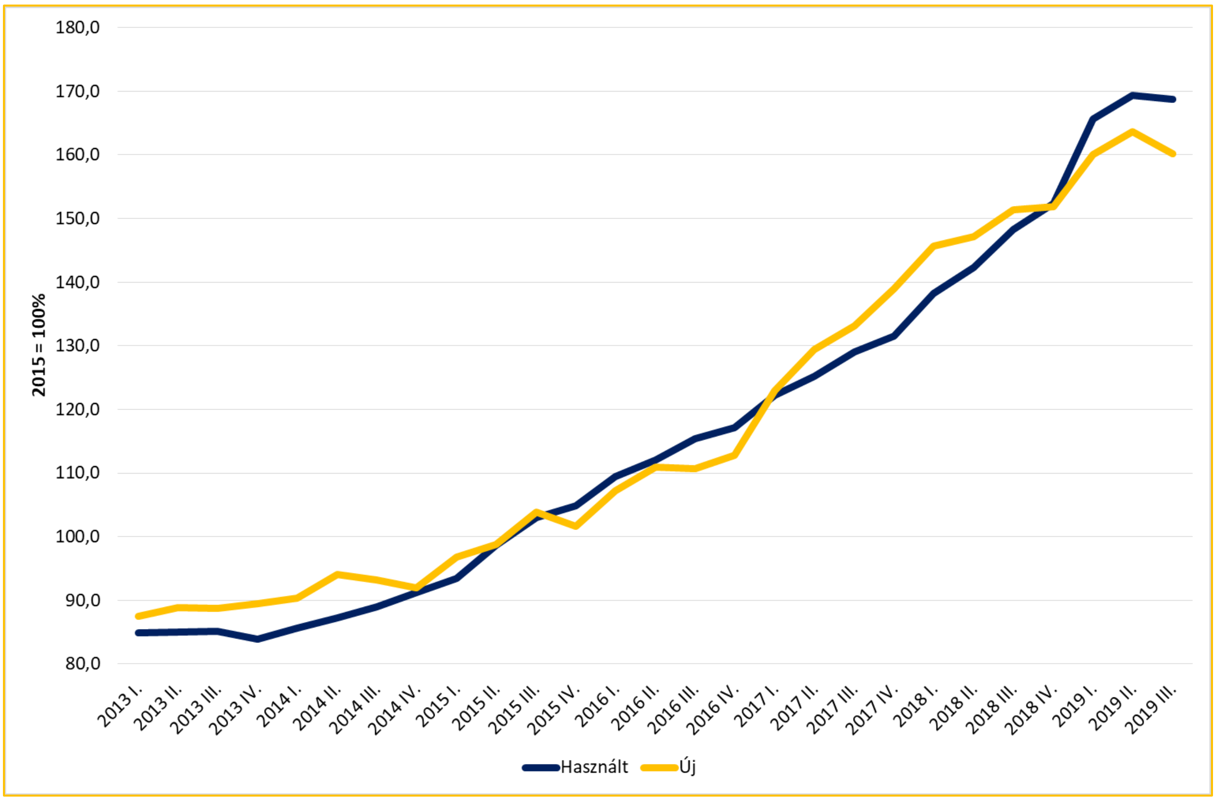


Source: CSO

Compared to the housing boom of the early 2000’s the current increase of market activity was less hectic. Despite this the increasing distance between the average price level of the Hungarian Capital and the rest of the country was interpreted as a sign of overheating. The number of housing transactions has reached the average level observed during the years between 2000 and 2008, but the price level has reached the pre-crisis level much faster and by 2019 the average price of dwellings increased even beyond that level.

According to the price index published by the Central Statistical Office by the 3rd quarter of 2019 the trend of continued price increase has halted after 6 years. A slight drop of the new housing price index was observable at around every third quarter before, however this time the drop was much stronger. According to the data of the CSO the annual increase of the average price of second-hand dwellings was 10.3% in the first quarter of 2019. In Q2 the increase was only 2.3% year-on-year, while in Q3 the price of second-hand units decreased by 0.5%. For the same period the prices of new dwellings increased by 5.5%, 2.2% and in the third quarter decreased by 2% respectively. Such an aggregate index does not give further insight into the regional disparities or the differences among dwelling types.

HOUSING PRICE INDEX (2015 = 100%)



Source: CSO

Otthon Centrum sales statistics for 2019

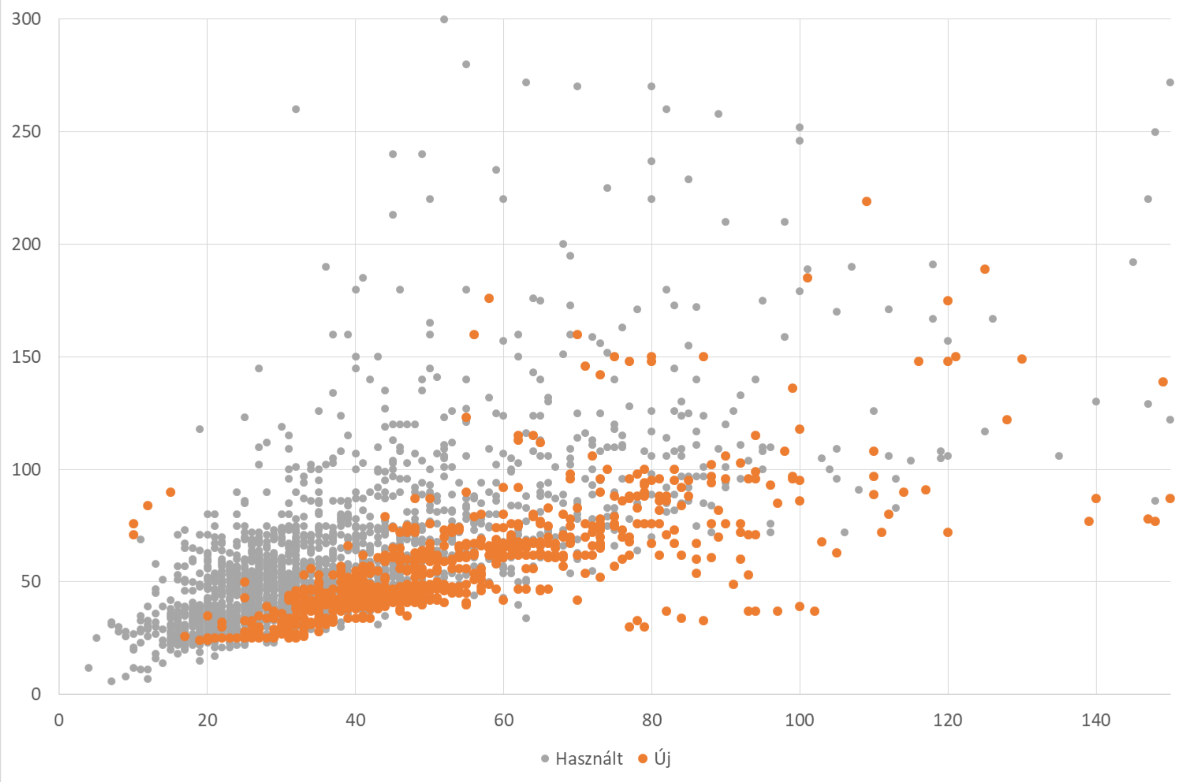
The overall increase of the average per square metre housing price for second-hand brick built apartments, compared to the previous year, was 21% based on the total transactions Otthon Centrum brokered during 2019. In villages there was no price change, but it should be noted that apartments are rare in these types of settlements. In medium-sized towns Otthon Centrum obseverd an above-average increase of the average price, in some cases reaching over 40%, whereas in all other settlement-types the increase of price remained close to the average.

Prefabricated apartments on housing estates – a typical mass housing form built during the 1960s, 1970s and 1980s – are the most affordable on the market, making this type of housing available for a wider range of buyers. This is the reason why this type of dwellings experienced the most dynamic price growth. In the central districts and on the Buda side of the capital city average square metre price of these units tripled since 2013, while in county towns and the cities of the greater metropolitan area of Budapest (Pest County) the average square metre price doubled during the same period.

The average square metre price of single family homes has increased by a third since the bottom of the crisis. There was large difference according to the type of settlement: in the Buda districts of the capital city the average price has doubled, in the peripheral districts of Pest the level of increase was almost the same, while in regional cities the average square metre price increased by 150% since 2013. In smaller cities and villages the price increase was much smaller during the same period.

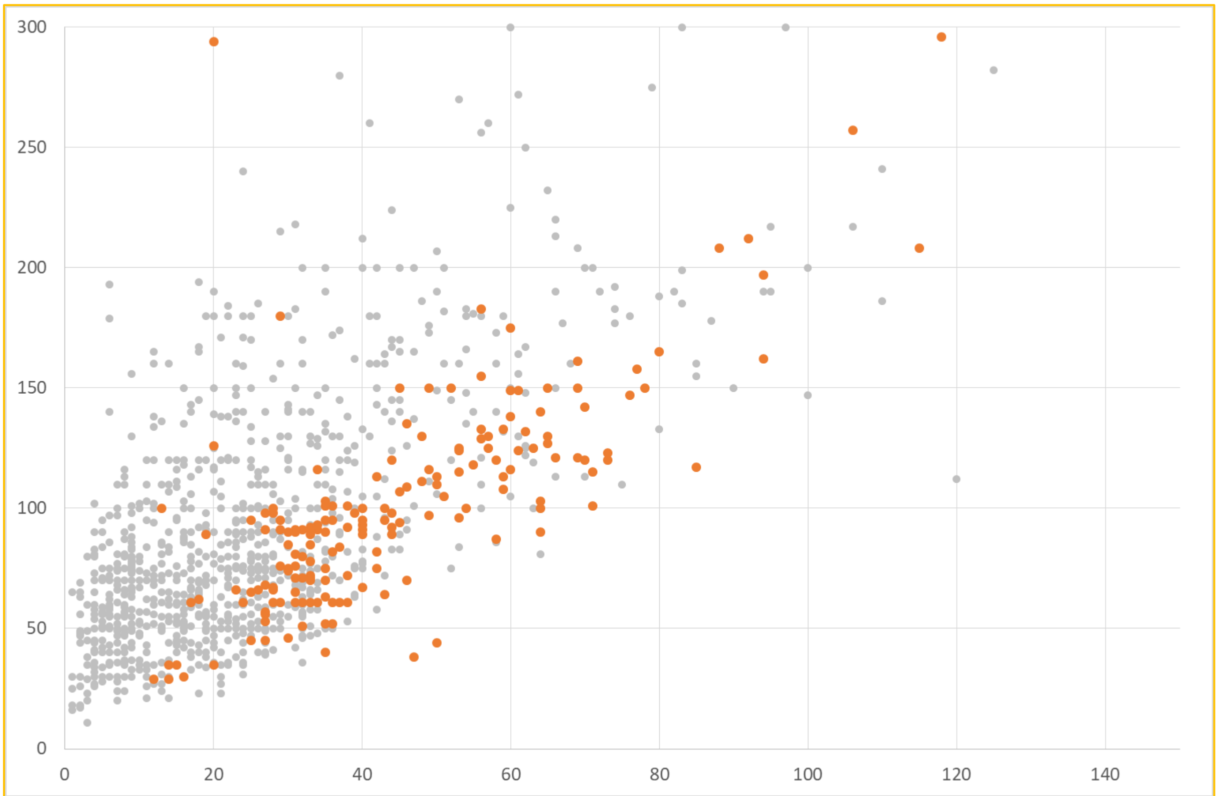
In 2019 40% of the dwellings sold by Otthon Centrum were single family houses, 60% apartments in multifamily buildings. A quarter of these apartments were in prefab buildings, while one-third of all sold brick-built apartments were newly constructed. 55% of apartments were sold in Budapest of which 30.6% were newly built.

HOUSING TRANSACTIONS BROKERED BY OTTHON CENTRUM IN BUDAPESTEN (2019)



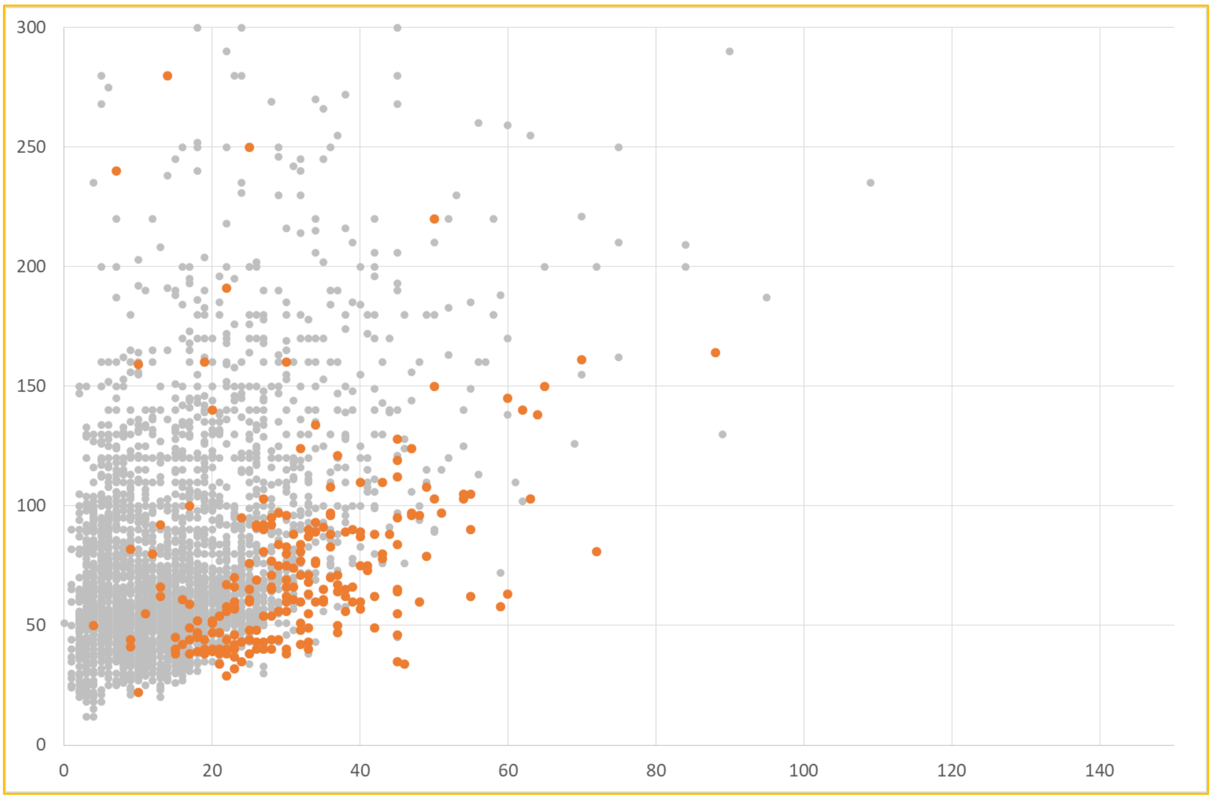
Source: Otthon Centrum (x – price in million HUF, y – floorspace in m²)

HOUSING TRANSACTIONS BROKERED BY OTTHON CENTRUM IN PEST COUNTY (2019)



Source: Otthon Centrum (x – price in million HUF, y – floorspace in m²)

TRANSACTIONS OUTSIDE CENTRAL-HUNGARY BROKERED BY OTTHON CENTRUM (2019)



Source: Otthon Centrum (x – price in million HUF, y – floorspace in m²)

The average square metre price of second-hand brick built apartments increased by over 10% since the previous year in all districts of Budapest. The annual price increase was above 20% in district 3 and 12 on the Buda side, whereas on the Pest side similar increase of the average square metre price was observed in districts 8, 9, 10 and 13. In four districts of the Hungarian capital the average price was above 800,000 HUF/m^2. The cheapest second hand brick built apartments were sold in District 20 (454,000 HUF/m^2), whereas the second cheapest units were sold in Csepel (District 21), where the price almost reached 500,000 HUF/m^2 in 2019.

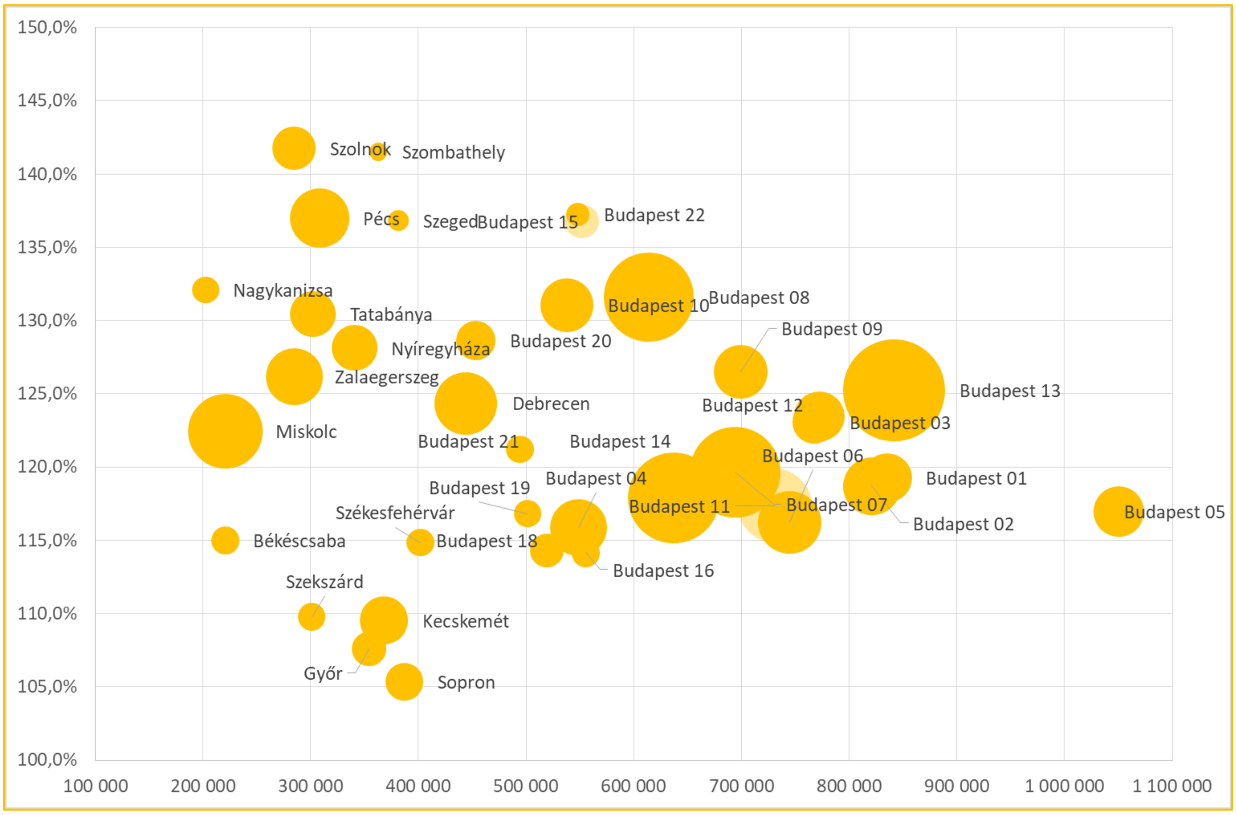
Outside Budapest over 5% increase was observed in the county towns. Brick built apartment prices have increased by 20% or above in all regional centeres, except Győr. Some cities, like Tatabánya and Szolnok experienced a price increase of 30%, whereas in Székesfehérvár the increase of the average square metre price for second-hand apartments was above 10%.

The most expensive apartments were sold by Otthon Centrum in downtown Budapest, whereas the cheapest second-hand apartments sold in the countryside towns like Békéscsaba or Nagykanizse traded at one-fifth of the average price in Budapest District 5. In the county capitals the average square metre price exceeded 400,000 HUF in Debrecen, whereas the most affordable deals were made in Miskolc and Békéscsaba at an average 250,000 HUF/m^2 during 2019.

Prefab apartments (typically built during the large postwar housing programs) saw a price increase over 20% between 2018 and 2019, except in Miskolc, where the increase was 40% and in many districts of Budapest, like in District 3, 9 and 13, the average price has increased by almost 30%. The cheapest prefab apartments were sold in Salgótarján at about 50% of the apartments sold in Miskolc or Dunaújváros.

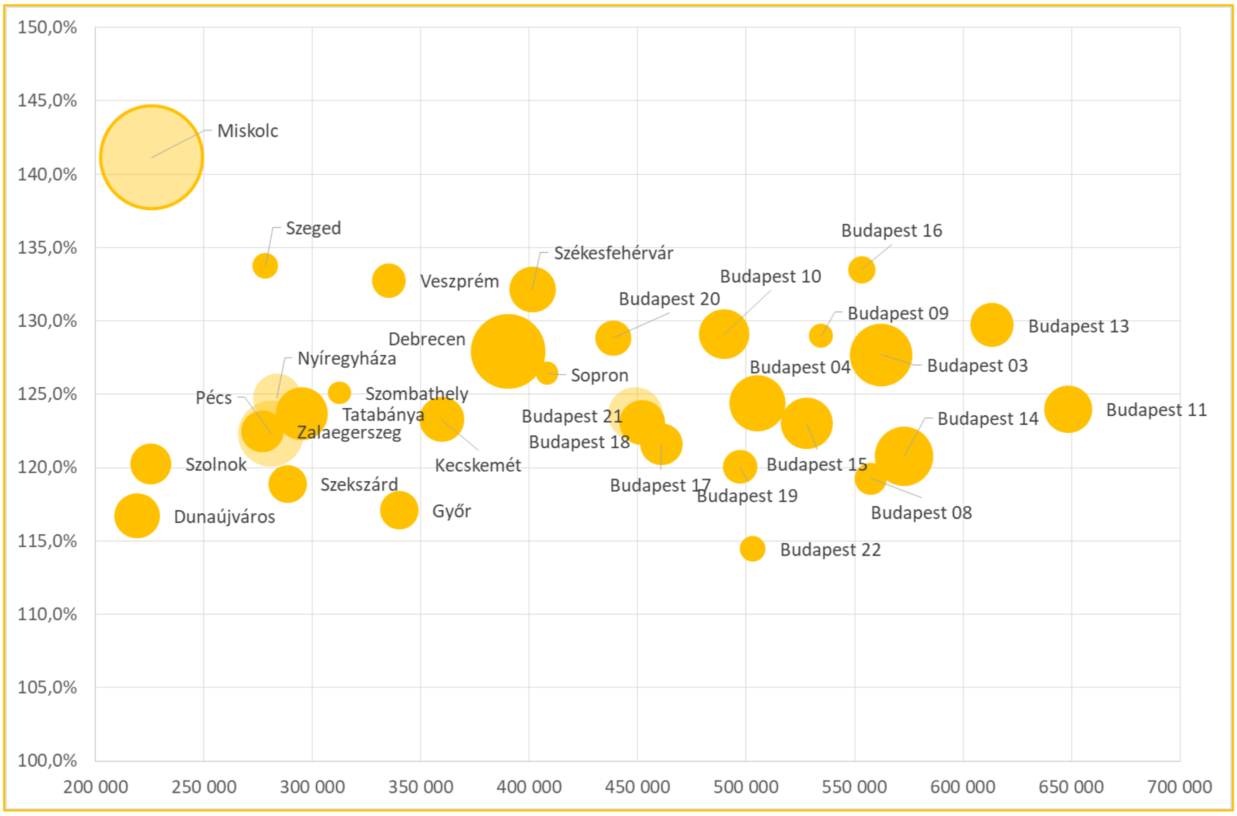
Single family houses are the least standard type of dwellings, there are large variations from the average price. In most cities single family homes sold at higher price than a year ago, however there were many exceptions.

AVERAGE PRICE (HUF/m²) OF BRICK-BUILT APARTMENTS IN BUDAPEST DISTRICTS AND COUNTY TOWNS IN 2019 AND THE ANNUGAL PRICE INCREASE (%)



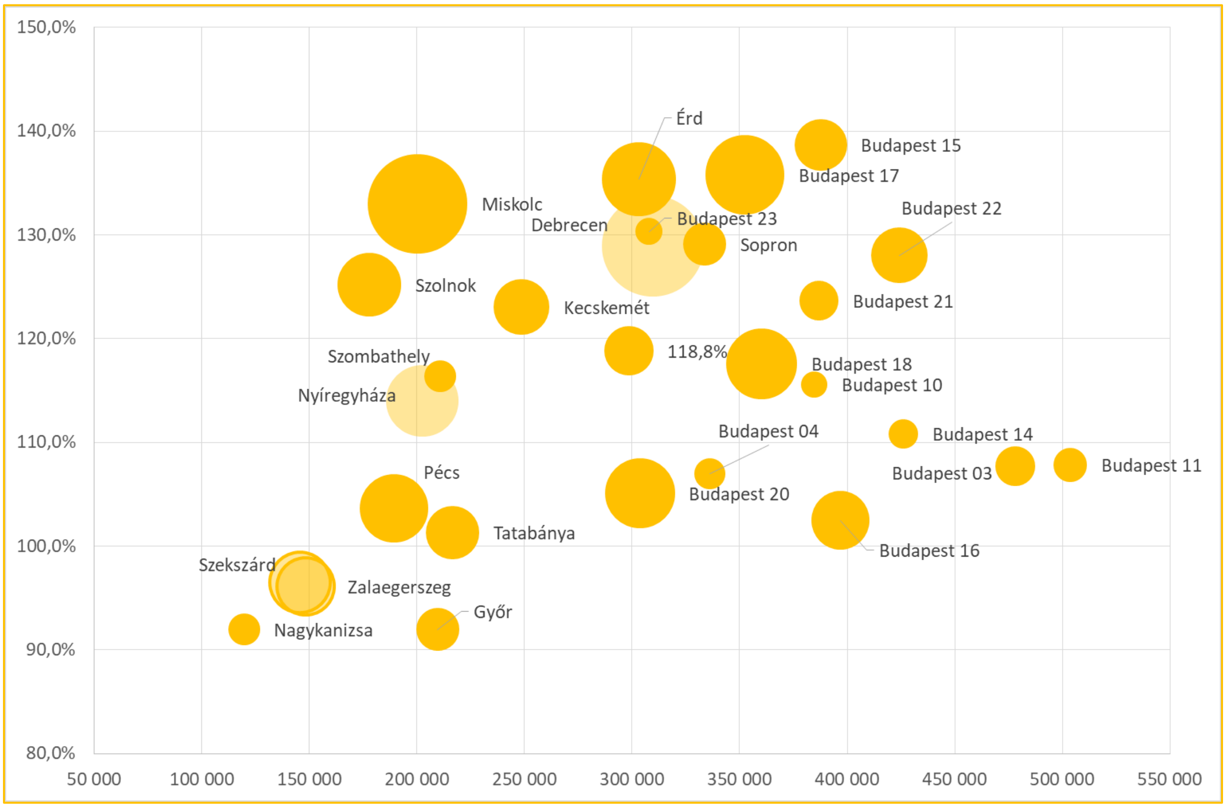
Source: Otthon Centrum (x – average price ('000HUF/m²; y – change in %; the size of the bubble reflects the number of transactions)

AVERAGE PRICE (HUF/m²) OF PREFABRICATED APARTMENTS IN BUDAPEST DISTRICTS AND COUNTY TOWNS IN 2019 AND THE ANNUGAL PRICE INCREASE (%)



Source: Otthon Centrum (x – average price ('000HUF/m²; y – change in %; the size of the bubble reflects the number of transactions)

AVERAGE PRICE (HUF/m²) OF SINGLE-FAMILY HOUSES IN BUDAPEST DISTRICTS AND COUNTY TOWNS IN 2019 AND THE ANNUGAL PRICE INCREASE (%)



Source: Otthon Centrum (x – average price ('000HUF/m²; y – change in %; the size of the bubble reflects the number of transactions)

Housing construction, newly built dwellings

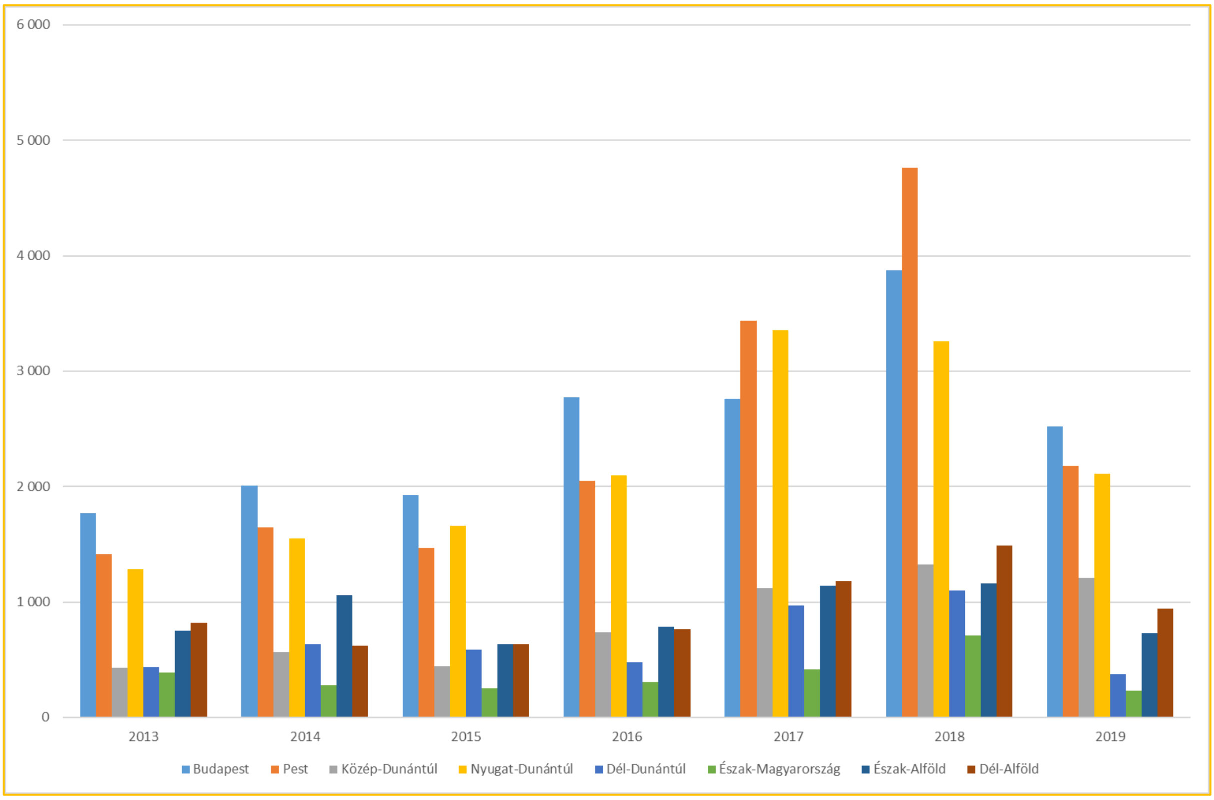
During January-September 2019 27.4 thousand dwellings were granted a building permit, 2.7% more than during the same period of 2018. Most dwellings were permitted in Budapest, where over 10,000 dwellings were granted a building permit, 22% more than a year before. The runner up in terms of the number of dwellings granted a building permit was Pest county, where 5,400 dwellings recieved a permit, which was 8% less, than a year ago. Among the country regions Western Transdanubia was the most active with 3,000 dwellings and North-Hungary the least with only 730 units permitted (still an 8% increase compared to 2018).

During the same period about 10 thousand units recieved an occupation permit, which corresponds with the number of units handed over during the same period a year before. Most of the dwellings were built in Budapest (2,500 units), whereas in Pest county 2,200 units were built. This represented 17% increase and 25% decrease respectively, compared to the previous year. Among the counties most newly built homes were handed over in Western Transdanubia (2,100 units), the same volume as a year ago. The least productive region was North-Hungary with a mere 233 new homes (still 40% more than a year ago).

According to the online market survey of Otthon Centrum in Budapest there were 492 projects, in the county towns 326 projects planned or under construction. During 2019 153 new projects appeared on the market in Budapest, 13.3% more than in 2018 (135 projects). In the county towns 96 projects started in 2018 and 148 during 2019 (54% increase). The average offer price of newly built homes was 550,000 HUF/m² in county towns, whereas near 1 million HUF/m² in Budapest.

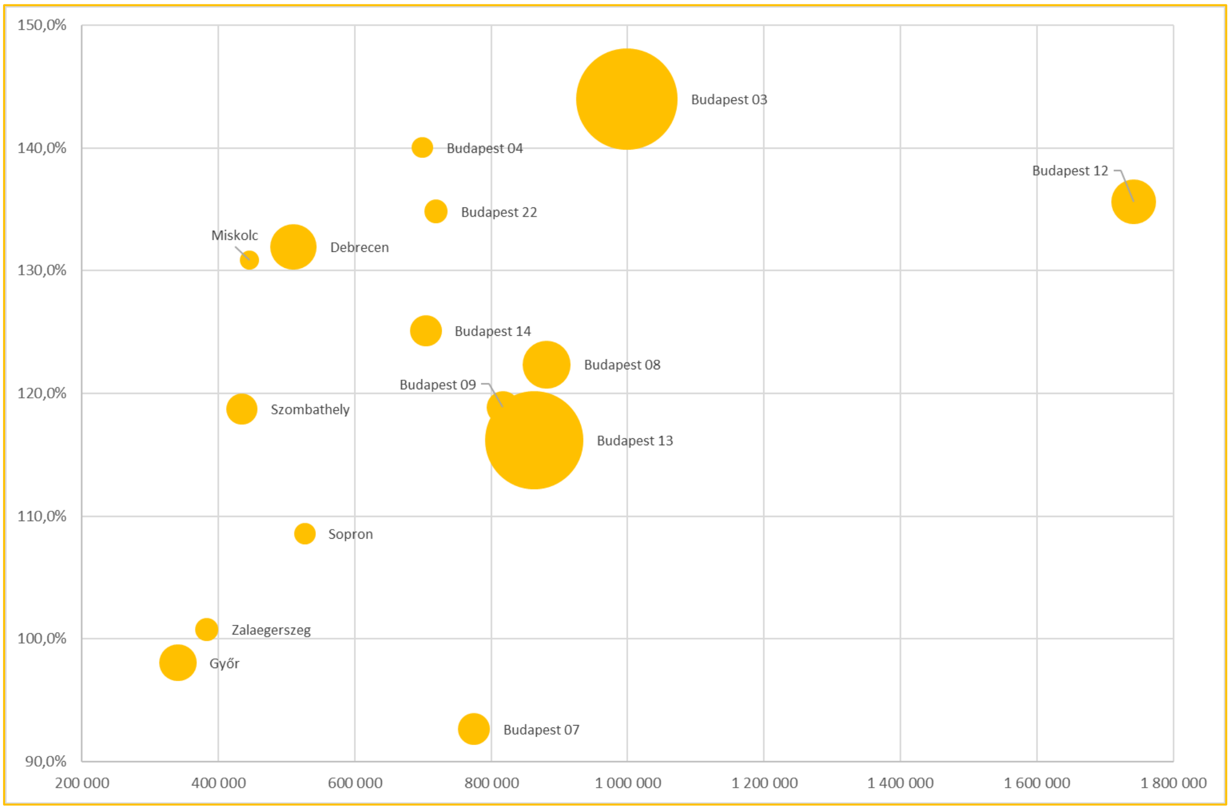
(More details: https://www.oc.hu/documents/w5pqbGFrw6FzcGlhY2kqa8O2cmvDqXAgMjAxOSBJVi4ucGRm/ujlakaspiaci-korkep-2019-iv_4nae85m4.pdf?v=1)

THE NUMBER OF NEWLY BUILT DWELLINGS BY REGIONS (2013-2019*)



Source: CSO *2019 Q1-Q3

AVERAGE PRICE OF NEWLY BUILT DWELLINGS IN BUDAPEST DISTRICTS AND COUNTY TOWNS IN 2019 AND THE ANNUAL INCREASE OF PRICE (%)



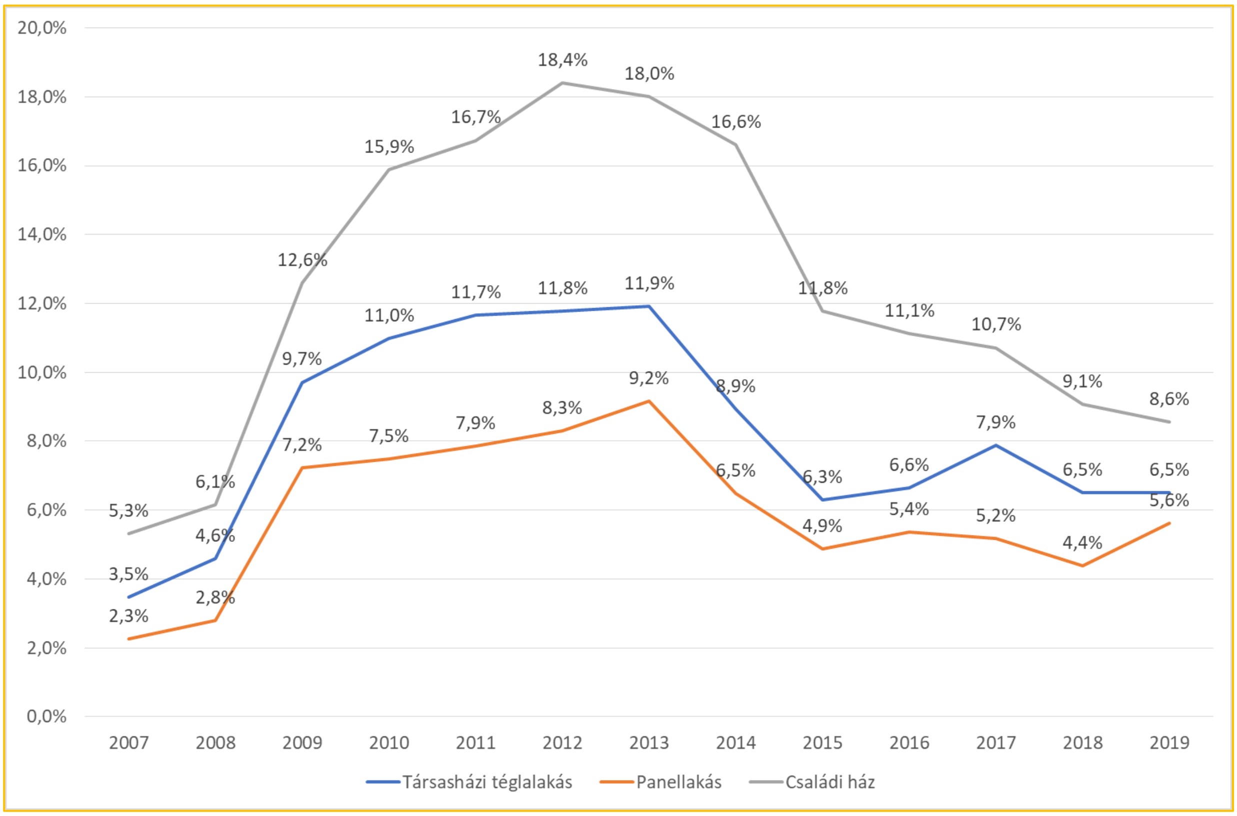
Source: Otthon Centrum (x – average price '000 HUF/m²; y – change of price %; the size of the bubble corresponds with the number of transactions)

Price discounts and sales period

Prefab apartments sold with the smallest discount during 2019

During 2019 the smallest discount was given by sellers of prefabricated apartments: 5.6% on average of this 3.3% was allowed during the final contracting negotiations. This was slightly higher than what Otthon Centrum observed during 2018, however in all other types of dwellings the rate of discount decreased. Sellers did not rush to sell and were more prepared to wait for a buyer with fat wallets who offered closer to their expectations. Buyers could bargain effectively only at the time of the final sales negotiation, but only if they payed in cash. The total discount of brick-built apartments was 6.5%, same as a year before, while single family homes on average sold for 8.6% less than quoted initially by the sellers (a decrease by half percent compared to 2018). Of these figures 4% and 6% was allowed at the final negotiation phase. These figures correspond with the ones registered before the 2008-2013 financial crises years, in case of single family homes the figure is slightly less than th epre-crisis level. The diminishing number of transactions during 2019 and the overall uncertainty of the market predicts stabilizing discounts for 2020.

PRICE DISCOUNTS BY TYPE OF DWELLINGS (2007-2019)



Source: Otthon Centrum

During 2019 the smallest discounts were achieved by buyers in the Budapest greater metropolitan areas (on average 5.4%), whereas the biggest price difference between the asking and the final transaction price was observed in small villages (on average 10.5%). The average discount ws 7.1% in the Buda districts, whereas in other districts of the capital city and the regional centres the average was 5.8%. Prefabricated apartments sold 7.8% below the asking price in the Pest districts, whereas in the outskirts districts of the capital and county towns the discount was 5-7%. The largest average discount was granted by sellers of single family houses. In small cities and villages the discount was above 10%, while the least discount was observed in the outer districts of Pest, where the discount was 7.2% while in the Budapest greater metropolitan area 7.3% on average.

Sales period

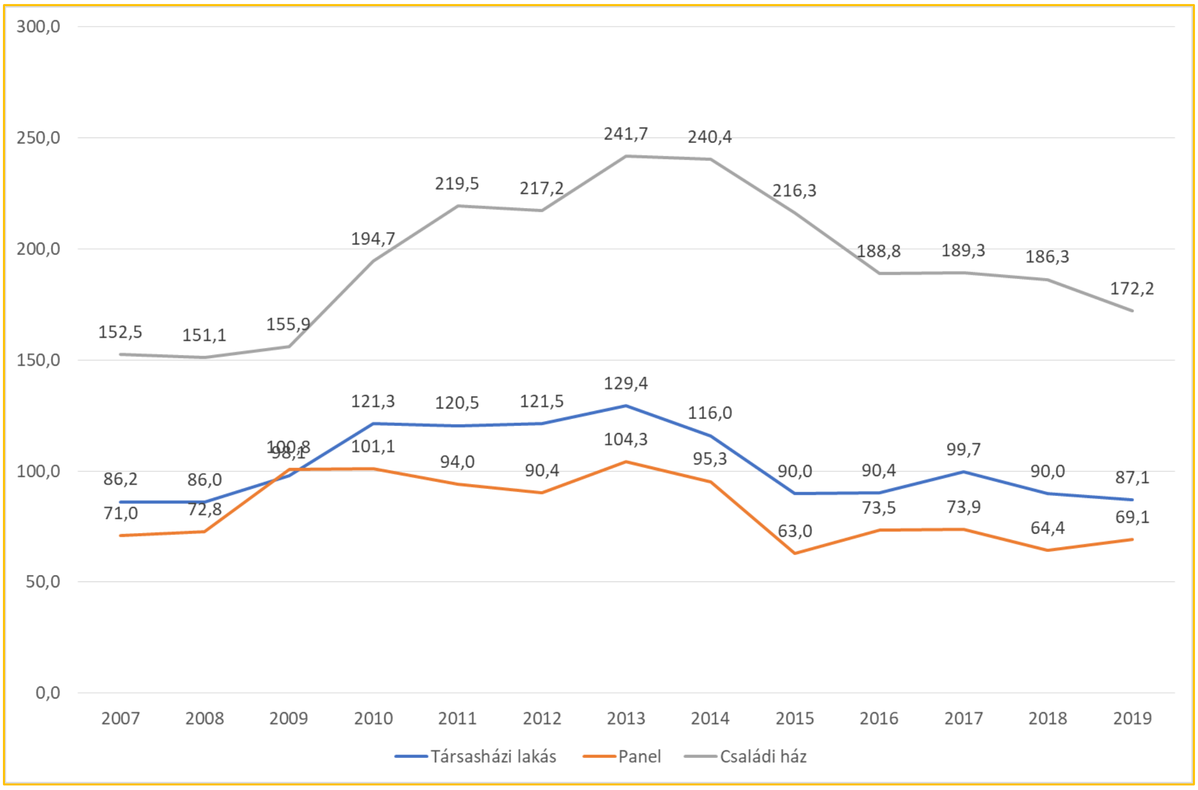
Apartments in prefabricated multifamily buildings sold the fastest during 2019. Despite taking on average 5 days more to sell such a dwelling compared to 2018 the average 69.1 days was the shortest among the housing types. Geographically Buda districts were the most soutght after, here units found buyers on average within 2 months, whereas innner districts of Pest it took the longest, on average 85.5 days to make a deal.

The average sales period for apartments in traditional brick buildings was somewhat shorter than a year ago, 87.1 days. The shortest turnaround was typical in smaller cities and county towns (on average 2.7months), whereas in small villages sellers on average waited for 4 months, which was a full week longer than in 2018. The largest change in terms of sales period was observed in the Budapest GMA where it tok an average 89.5 days to complete a deal compared to 80.6 days a year ago.

Despite the fact that most households would like to move into a single family house this type requires the most patience from sellers. As a result of being the most custom designed property type there are great variations among single family houses. Architectural design, materials and technology used, amenities are difficult to compare. It is therefore not a surprise that sellers on average waited 5.7 months to find a buyer for their property in 2019, based on the experience of Otthon Centrum.

The size of the settlement also plays a great part in determining how fast properties sell. In 2019 single family dwellings required the longest period to sell in small villages: it took a month longer compared to the average time needed. In the Buda districts of the capital city it took on average 118 days, while in the peripheral districts on the Pest side 122 days to sell a single family home. This was 2 months, and 1 month shorter than a year ago, respectively. In county towns the sales period was close to the average, but 50 days less, than a year before.

AVERAGE SALES PERIOD (MEASURED IN DAYS) IN HUNGARY ACCORDING TO THE TYPE OF DWELLING (2007-2019)



Source: Otthon Centrum

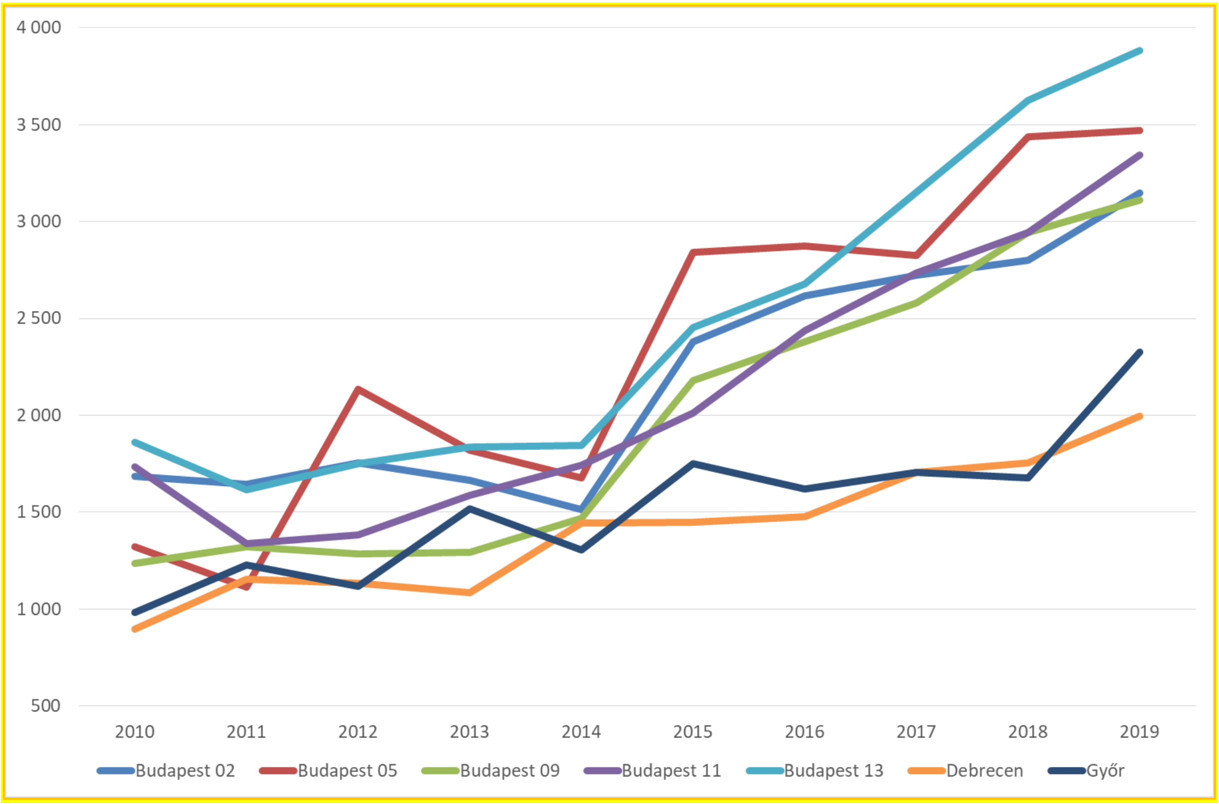
Rental market and housing investments

Average monthly rents during 2019 in second-hand Budapest brick-built apartments ranged between 2,400 and 3,900 HUF/m^2/month based on the contracts brokered by Otthon Centrum. The most expensive rentals locate in District 13, 5 and 1, where the average rent reached 4,000 HUF/m^2/month. The cheapest rentals, at prices less than 3,000 HUF/m^2/month, were to be found in District 4 and 10 and the peripheral districts on the Pest side of the capital. In most districts of Budapest rents increased by 5-10% compared to a year before. In District 1, 2, 3, 11, 12 (on the Buda side) and District 10, 14 (on the Pest side) the year-on-year increase was over 10%. Apartments in prefabricted buildings were rented on average about 500-700 HUF/m^2/month cheaper than the brick built apartments, but the increase of the average rent was above 10% in almost all of the districts.

In the county capital cities rents were cheaper than in Budapest during 2019. In Győr the average monthly rent was 2,300 HUF/m^2, whereas in Debrecen, Miskolc and Székesfehérvár 2,000-2,200 HUF/m^2. Pécs and Szeged proved slightly below that, in these cities tenants paid on average 1,600 HUF/m^2. In Pécs, Szeged and also in Székesfehérvár rents did not change compared to 2018, whereas in all other major regional centreas an increase between 15-30% was observed. Interestingly in larger cities there was no difference in the rental pricing between brick built and prefabricated apartments.

The long-term rental yield for private persons deducting a lumpsum cost margin was 5-7% based on the average rental fees and sales prices. Not taking into account the value appreciation the yield is somewhat less, so it was not a surprise that many investors were attracted to the new MÁP+ government securities. Investors turning away from property was the most felt in Budapest.

AVERAGE MONTHLY RENT PER SQUARE METRE IN BRICK-BUILT APARTMENTS – BUDAPEST DISTRICTS AND MAIN REGIONAL CITIES (HUF/M²/MONTH)



Source: Otthon Centrum