

FHB House Price Index Q1 2017

Growth rate on the real estate market is not slowing down

In Q1 2017 FHB House Price Index continued to grow, the index value rose from 233.61 to 243.03. The price increase was again higher than in the previous quarter but still, it did not reach the record level from Q1 of the previous year. For residential property, in Q1 2017 we had to pay in average 4% more than in the previous quarter. In order to generate the current index, besides FHB own market information and observations, data were sourced from National Tax and Customs Administration as well, for the indicated period.

At this time, FHB House Price Index level is more than 21 percent higher than the pre-crisis peak. In this meaning, today buyers have to pay for the property one fifth more than in Q1 2008. *In real terms, the prices are getting about the level recorded at the beginning of 2008. (Figure 1.)*

Based on the updated data, we have finalised the value of FHB House Price Index for Q4 2016 as follows:

FHB House Price Index values:

Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q4 2017
199.33	217.35	220.23	226.6	233.61	243.03

FHB Index from 1998 until 2017 Q1-ig (2000=100)

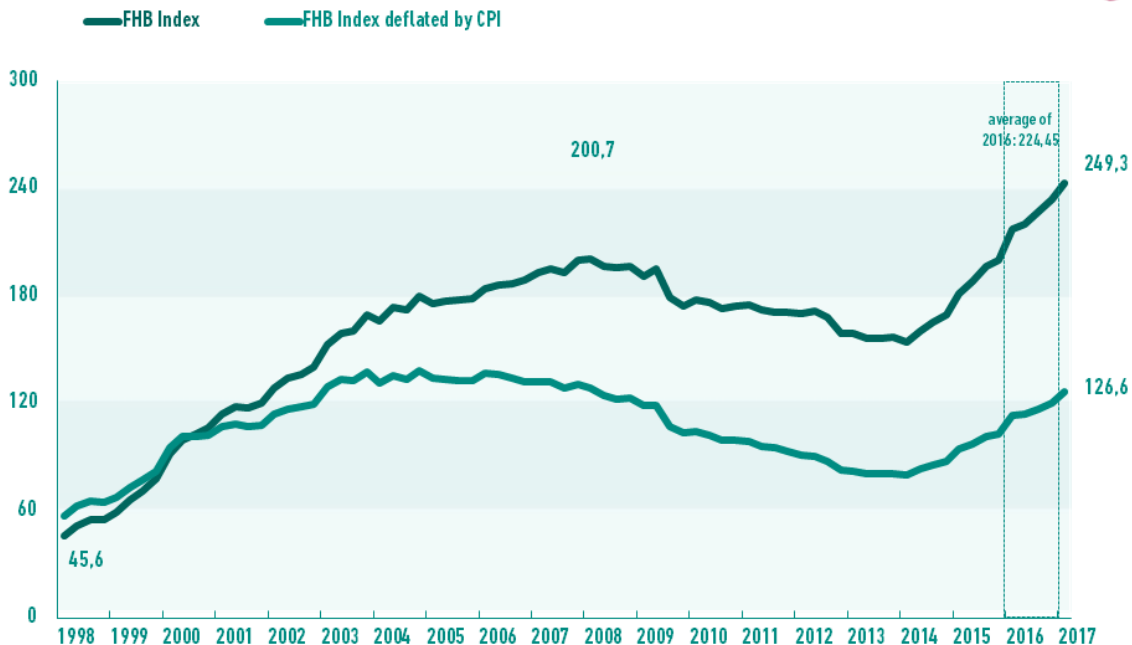


Figure 1. Development of the FHB House Price Index (source: [FHB Index](#))

Change of FHB Index - compared to the previous quarter of the year(%)



Figure 2. Short based changes of House Price Index (Source: [FHB Index](#))

In Q1 2017, the prices in Hungary were 4 percent higher than in the previous quarter. This means that the rise was accelerating during Q3 and Q4 of the previous and during Q1 of this year, as well. In the same time, it falls well behind the record-holder rise of over 8 percent, experienced in 2016. (Figure 2.) At the end of Q1 2017 in Hungary one would need to pay in total 21.6 percent more for residential property, than at the end of the year of 2015, and almost 12 percent more than in the same period last year (both in terms of real and nominal value).

During the elevation curve, starting from Q2 2014, the index nominal value rose almost by 58 percent, while real value rose nearly by 59 percent, which means that buyers today have to pay in average more than a half as much again for the property than three years ago.

Housing market developments

Booming Housing Constructions

The number of issued house building permits significantly rose in 2016, and the elevation continued in the first half of 2017. Almost 20 thousand building permits were issued in Hungary, a level that is higher than the levels characteristic for a single complete year in the period 2012-2015 and coming close to two-thirds of last year's annual value. Regarding the number of building permits, Budapest is still leading, and its advantage rose further in first six months of 2017, a period during which nearly 8,400 permits were issued, while during the complete year of 2016 a bit less than 9,400.

The number of housing constructions also rose in the first half of the year, but the growth is lower than the one recorded for the number of building permits. In the first half of 2017 more than 5,000 homes were built, a number which was surpassed only in the matching period of year 2011. At the same time, the number of occupancy authorizations could significantly jump as a considerable part of projects are planned to be delivered in the second half of 2017. Through different types of settlements, a robust differentiation is presented, as most of the housing construction sites are in Budapest and other cities. (Figure 3.)

Number of new homes and building permits - by type of settlements

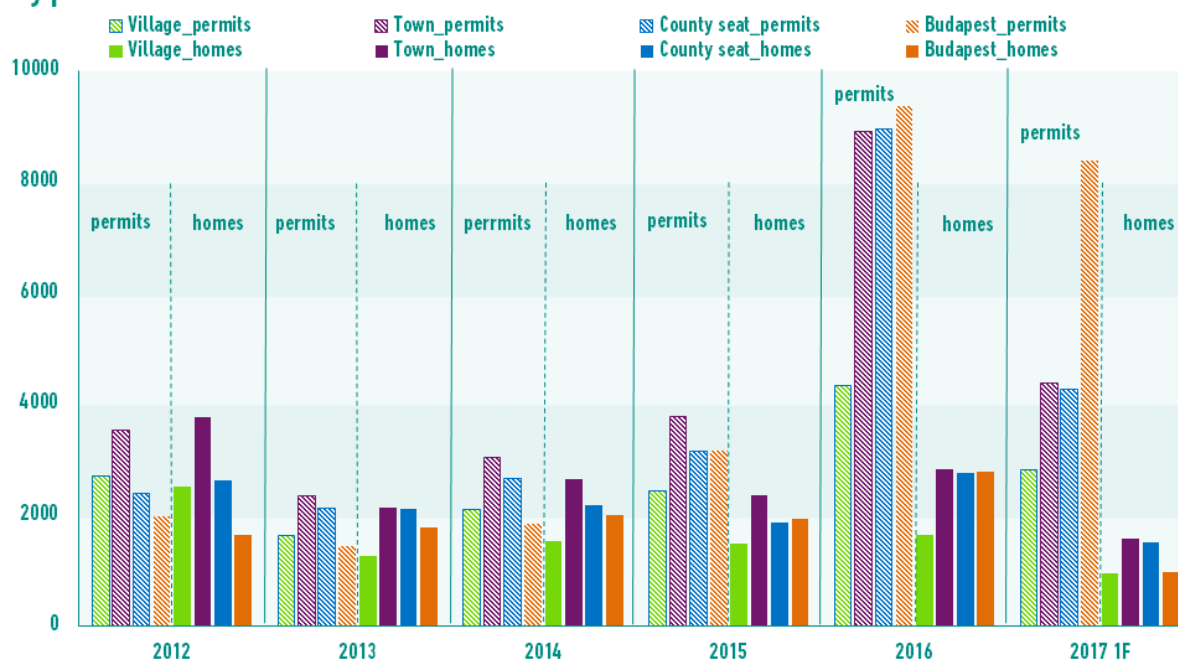


Figure 3. Number of newly-built apartments and building permits issued in Hungary by settlement types (source: KSH)

In 2017 there will be significantly more housing units delivered than in previous years, but the expected number of ones to be delivered in 2018 could significantly surpass according to investors: over 9,200 units are to be found in construction projects containing more than four apartments. Furthermore, the number of apartments planned for construction in 2019 is also surpassing the number of apartments delivered in previous years. At the same time, contracting companies are struggling with lack of capacity which could postpone delivery of several projects, as half of them already announced a delay at the very beginning, according to Budapest Housing Market Report. (Figure 4.)

Number of built new homes by enterprices and number of planned to be completed new homes in Budapest

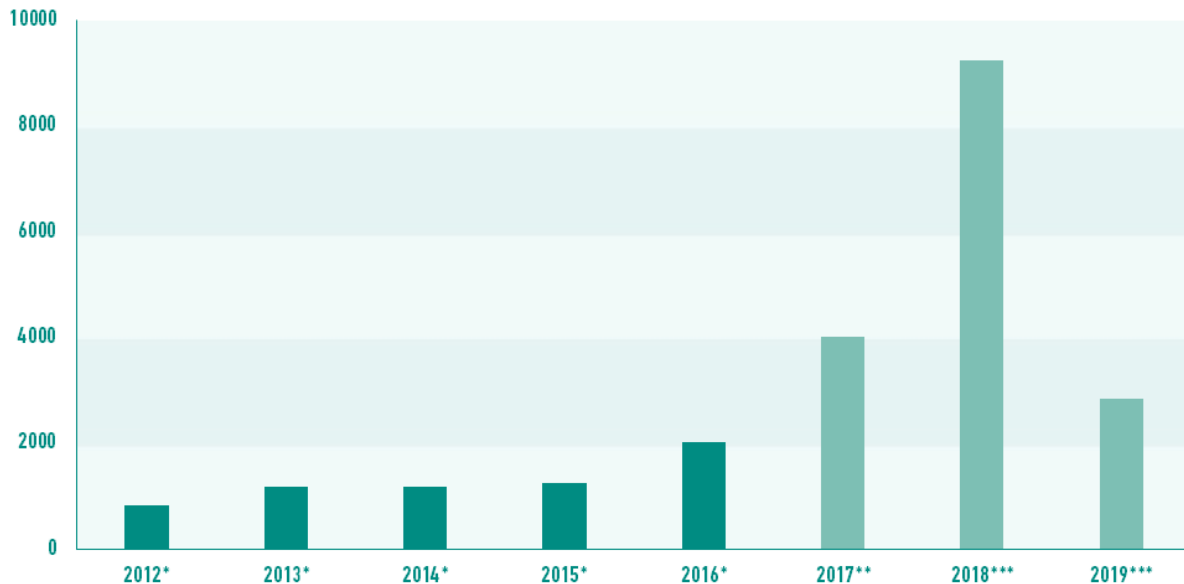


Figure 4. Number of housing units in Budapest delivered in previous years and planned to be completed future, according to delivery date and based on data from Q2 (Source: KSH, Budapest Housing Report)

* Number of housing units built by contracting companies, ** The number of housing units found in projects that contain at least 4 apartments, handed over in the first half-year period according to Hungarian Central Statistical Office and ones expected to be completed in the second half-year period according to Budapest Housing Market Report. *** The number of housing units found in projects that contain at least 4 apartments, expected to be completed according to Budapest Housing Market Report

From the housing market perspective, the house loans are developing well and the amount of new loans has significantly risen comparing to years 2013-2014. The sum of outstanding loans in Hungary is already between 30 and 40 billion HUF per month, an amount which can rise further this year. This year in the period between March and July, the seasonally adjusted monthly value of the originated HUF based loans were over 50 billion HUF each month, and in January and February was also very close to this amount. In July 2017, following the slight tendency of decreasing, the average annual percentage rate of charge for HUF based house loans at the time of origination was 4.77%, while the average annual interest rate weighted by the contractual amount was around 4.5 percent. (Figure 5.)

New housing loans lent to the households

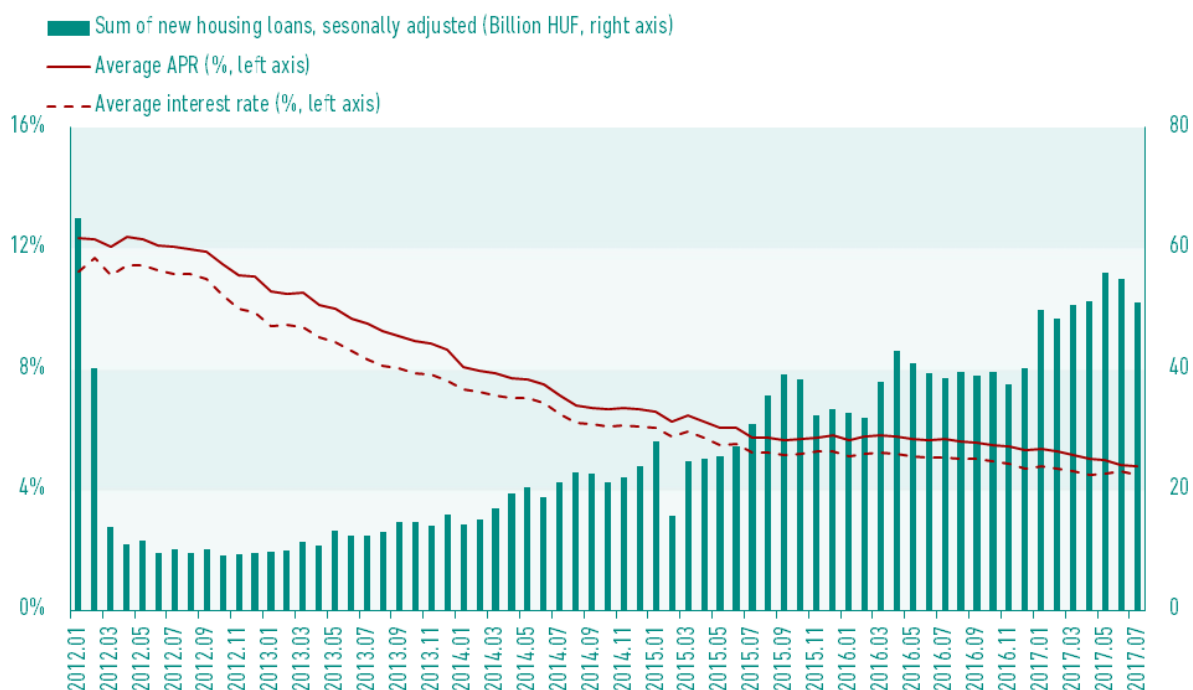


Figure 5. Housing loans: interest rate and the extent of lending out (Source: NBH)

In 2016 the number of transactions showed further growth, as the number of concluded sale contracts was over 146 thousand, compared to 134 thousand in the previous year. This number could be slightly higher if we take into consideration that newly-built housing units will be considered only after they are completed. This year we are not expecting further significant growth of purchases, their number will rather stagnate.

Examining the number of transactions sorted by the type of settlement (Figure 6.), the growth is showing regional differentiation. While in Budapest during 2016 the turnover dropped comparing to 2015 (-8.4%), the number of transactions in other cities and municipalities significantly increased: the former by 19 percent, the later by 24.5 percent.

Number of home sales by type of settlements

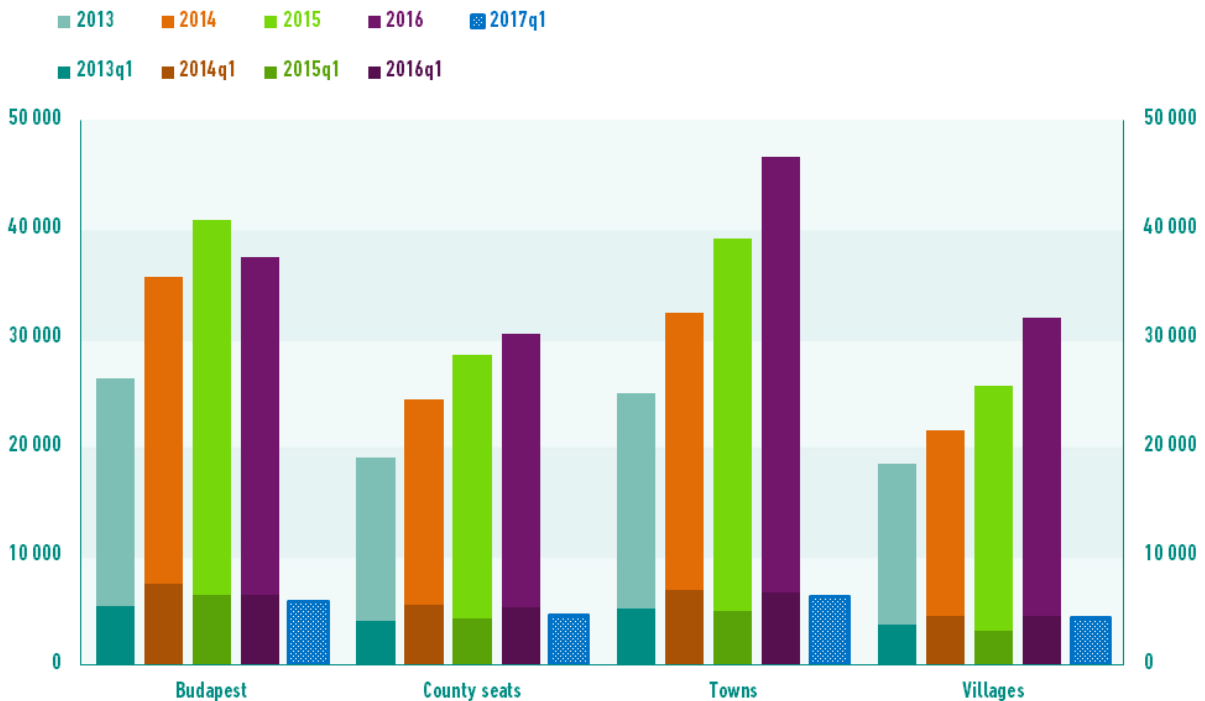


Figure 6. Development of the transaction numbers sorted by the type of settlement in period between 2013 till Q1 2017. (Source:KSH)

Regional developments

Significant differences in the price increase

In Q1 this year, the ongoing price increase continued in all regions of Hungary. Based on median prices, the biggest increase featured Central Hungary and region of the Southern Great Plain, while the slightest price increase was still observed in the region of Northern Hungary. (Figure 7.)

The situation has not changed in the breakdown by settlement types, henceforward Budapest is featuring the biggest price increase, and however, the prices also went up significantly in the seats of counties: comparing to average values in 2016, the growth was over 10 percent. At the same time, the communes featured stagnation or decrease, while the cities had a moderate price increase. (3.8%) We must note that within certain types of settlements, there are significant differences between geographically distinct regions, regarding the formation of prices.

Median house price in Hungarian regions

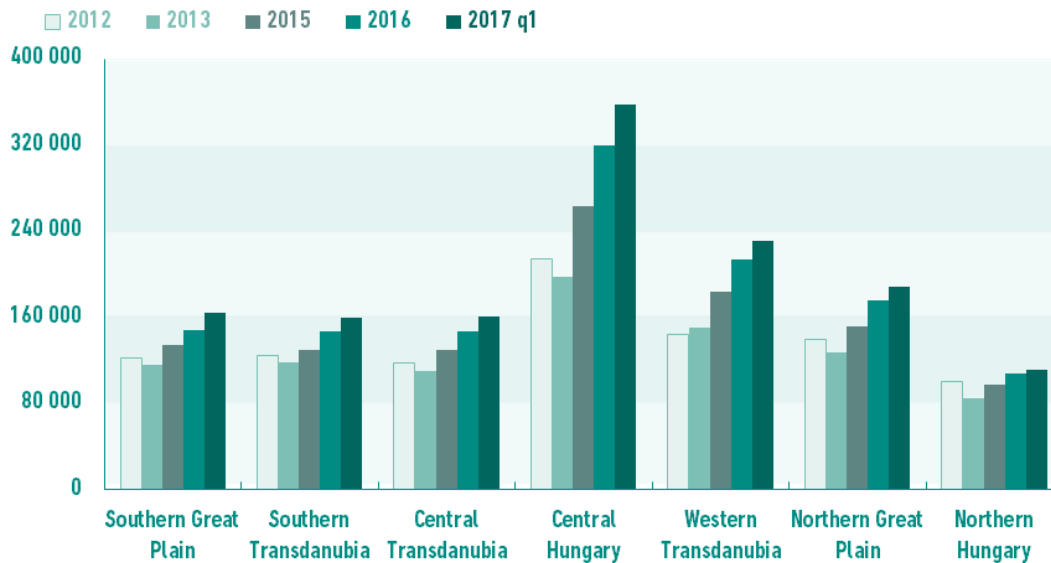


Figure 7. Median square meter price trends in regions of Hungary (Source: FHB Index)

Budapest is still leading

Comparing to the bottom, Budapest leads with the price increase, as in Q1 2017 one should pay nearly 80 percent more for the residential property than during the crisis. At the other end are the parishes, where housing prices raised 6-20 percent, compared to the bottom. (Figure 8.)

The correspondence between house price (2017 Q1) and change in house price between the bottom level and 2017 Q1

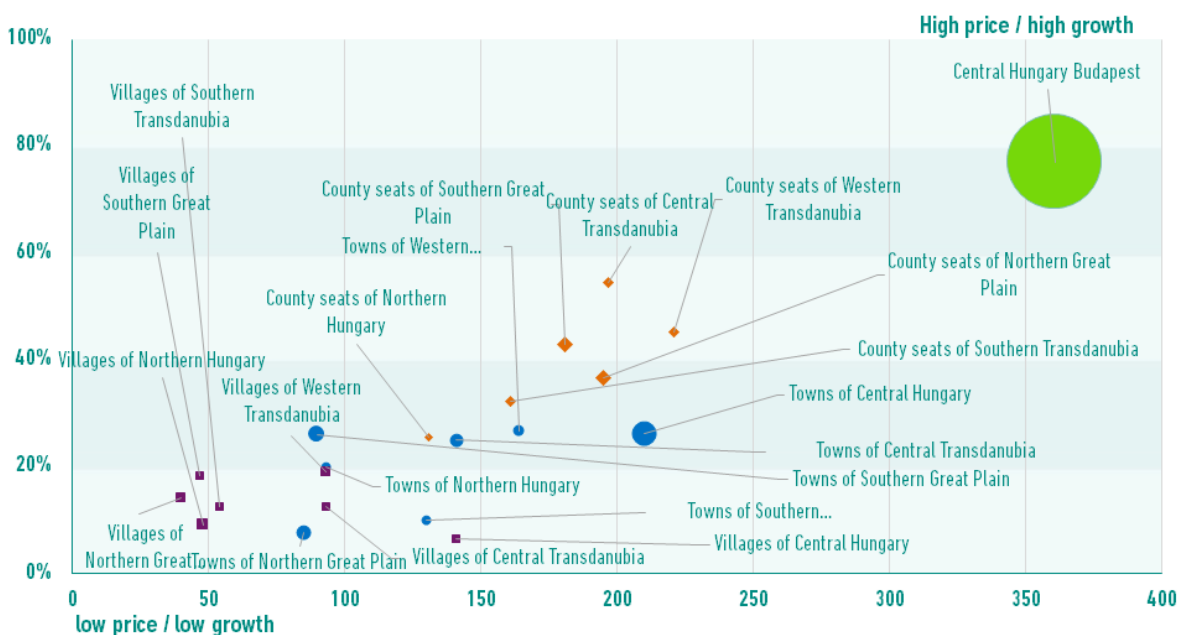


Figure 8. The correspondence between the fluctuation of average housing prices (in the period between the bottom during the crisis and Q1 2017) and the specific prices in Q1 2017 in certain regions of Hungary, broken down by settlement types. The size of the circles are illustrating the market share. (Source: KSH, FHB Index)

Last year, **big cities in certain regions were catching up with Budapest regarding the price increase, endangering its leading status.** Comparing data of Q1 2017 with average values from 2016, the highest housing price increase is not showing in the capital. **In county seats of Central Transdanubia the price increase of 13.7% surpassed the one recorded in the area of Budapest (10.8%), while the county seats of Southern Great Plain are also catching up with prices higher by 10.5%.** (Figure 9.) The property business expanded also in communes, but with the least price increase in the country.

The correspondence between house price (2017 Q1) and change in house price (2016-2017 Q1)

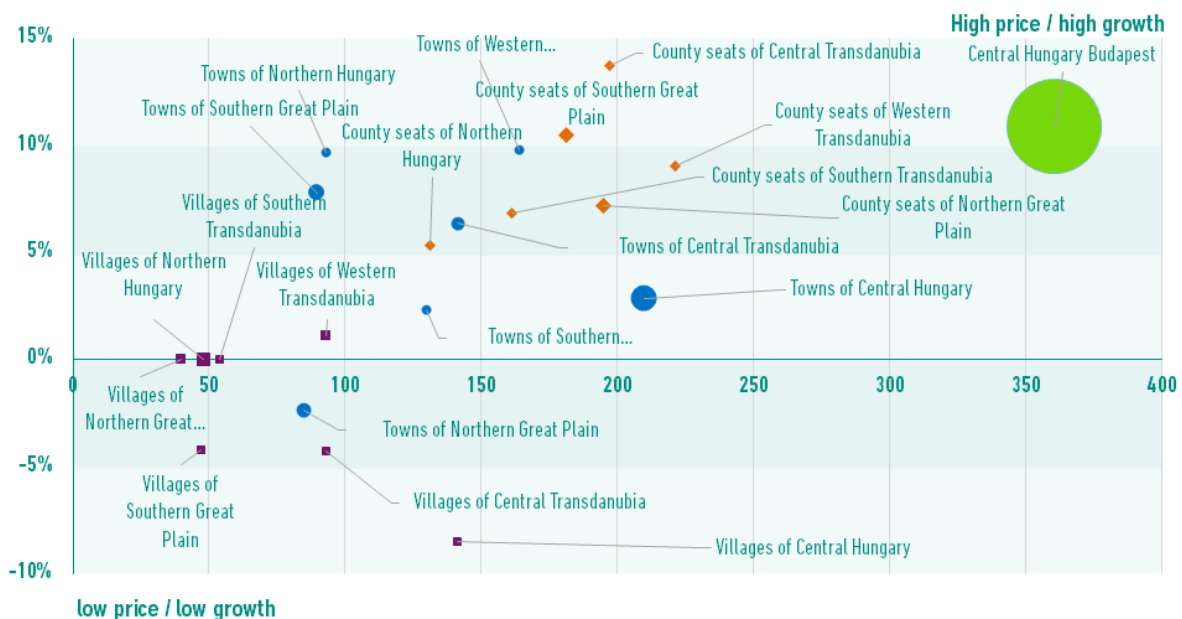
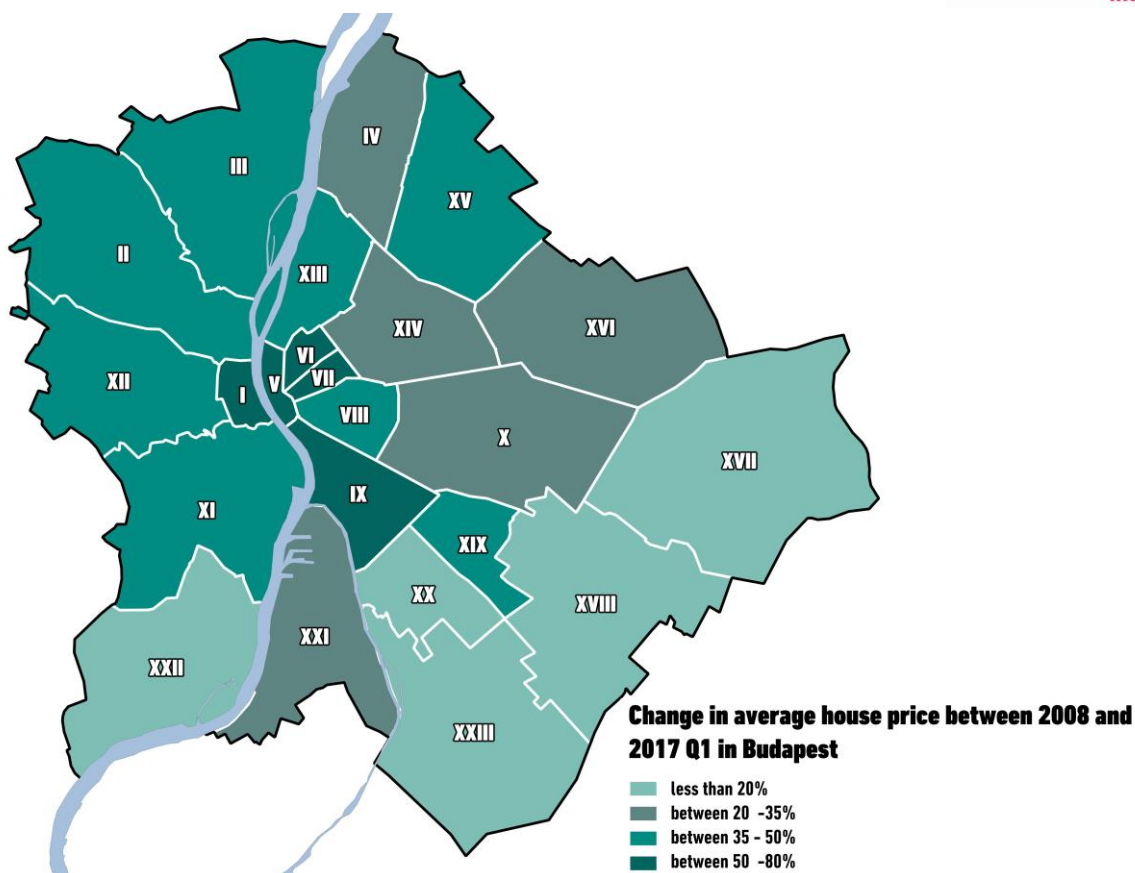


Figure 9. The correspondence between housing price trends (period between Q1 2016 and Q1 2017) and the specific prices in Q1 2017 in certain regions of Hungary, broken down by settlement types. The size of the circle is illustrating the market share. (Source: KSH, FHB Index)

In Budapest, **compared to the bottom prices during the crisis, the increase for downtown properties was prominent. Comparing to the lowest point of decline during the financial crisis, in 2017 the prices went double in districts V, VI, and VII.** In this period, districts with downtown proximity also performed very well: in districts I, XIII, VIII, IX, and X the growth was 75-87 percent. **Comparing to the bottom, the pricing of districts at Budapest outskirts had changed the least.** Nevertheless, district XXII which is outermost from downtown, still had a modest price increase exceeding the 50 percent.

Our analysis of housing price levels was not made only considering the bottom during the crisis, but also contains a comparison with property prices in 2008. **Comparing the Q1 2008 and Q1 2017, Map 1. is illustrating how the Pest side had the largest fluctuation in districts VI and VII because of the race evolved in Budapest downtown.** Huge appreciation was featured in districts I, IX, XIII, XI and II, where the difference between the housing prices between these two periods is around 40 percent or even more. Comparing Q1 2008 and Q1 2017, the lowest price increase was in districts XVII, XVIII, XX, XXII, and XXIII, where the difference is varying in the range of 10-20%.



Map 1. Change in average housing prices between 2008 and 2017 Q districts of Budapest. (Source: *FHB Index*)

Cities of Transdanubia

House prices in larger cities of Transdanubia region even surpassed the level recorded in 2008. (Figure 10.) Only in the cities of Kaposvár, Tatabánya, Dunaújváros and Nagykanizsa one would need to pay for a real estate less in Q1 2017, than 9 years ago. Comparing to housing prices before the crisis, the largest price increase was in Győr, where between 2008 and first three months of 2017, residential property prices rose by 45 percent, followed by the city of Sopron, where today one needs to pay 43 percent more, than 9 years ago. In the case of Győr, the fact, that housing market was not dented during the crises contributed to this significant difference, as the price decrease in this period was minimal. According to the bottom, the price increase was the largest in Sopron, around 66 percent, while in Győr, Székesfehérvár and Veszprém was over 50 percent.

Between 2008 and Q1 2017 the utmost leeway in housing prices is measurable in Dunaújváros, where one should pay today approximately 19 percent less, and in Nagykanizsa, where the leeway is 15% comparing to the prices from 9 years ago. In Tatabánya in the first three months of 2017 one had to pay a bit less for a real estate than in 2008, but if we take in consideration the huge decline during the crises, we can see great improvement as housing prices rose 50 percent compared to the bottom.

House price in Western Transdanubia (2017 Q1) - as compared to the bottom and pre-crisis level



Figure 10. Q1 2017 housing price level in-certain cities of Western Hungary as compared to the pre-crisis level and to the bottom (Source: FHB Index)

Our services adjacent to the FHB Index

FHB House Price Index is published quarterly. In the domestic real estate market, among other housing market data, this indicator is exceptional in its time interval, data quality, and its methodological grounding. From its first publication in 2009, NBH (National Bank of Hungary), the international organization of RICS (The Royal Institution of Chartered Surveyors), the IMF, the European Mortgage Federation and the European Committee has referred to FHB Index as an outstanding housing market indicator.

FHB is publishing special issues on specific topics related to real estate market, such as Agricultural Land Price Index and House Price Forecast, on regular basis. Our model-based house price forecast methodology is reclining on the following pivot:

- I. It is identifying correlations between chosen macroeconomic indicators, money- and loan-market index-numbers, housing market turnover and house prices, based on international experience and experience gained in Hungary. (Our assessment of expected development in the macroeconomic and financial environment is mainly based on predictions issued by the National Bank of Hungary.)
- II. FHB Takaréék Group is playing a determining role in Hungarian housing finance market for almost two decades. Our operations cover the entire country, and we have access to information from the most significant real estate appraisers, which is complemented by FHB Real Estate Ltd.'s own professional experience. Our forecasts, therefore, include processed and verified local assessments as well.

The complete Hungarian database used for FHB Index and the methodological development carried out for its apprehension, provide a fast and cost-effective solution for monitoring and supervision of property appreciation in the cover portfolio, thus satisfying this compulsory requirement for the financial sector.

The Capital Requirements Regulation 575/2013/EU issued by European Parliament and the Council (26th June 2013) on prudential requirements for credit institutions and investment firms (CRR), is the legal framework for monitoring and supervision of the value of real estates in the cover portfolio from time to time. We are proud to be a provider of services to multiple leading national banks. Thinking about the future, the banks have to be in compliance with rigorous supervisory requirements. For this reason, it is conducive to apply a process which is matching international standards and has a methodology that will accordingly provide records for authorities.

We undertake numerous custom-tailored analysis and research. Within these, we offer local information on apartments, lots and Agricultural lands, more detailed explanations on the extent and dynamics of our prognosis, as well as the analysis of the risks surrounding the realization of the trends forecast.

FHB Mortgage Bank Plc is a member of the Integration of Co-operative Credit Institutions.

We are pleased to give customized offers and to respond to any inquiries.

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