

## FHB House Price Index Q3 2017

During Q3 2017, the housing prices continued to rise according to the latest analysis made by FHB Mortgage Bank, a member of Takarék Group. The FHB House Price Index value rose from 247.5 to 253. Compared to Q2 the price nominal increase is 2.22 percent, while the real increase is 1.39 percent. As result of the notable rise of real estate prices in previous years, the value of FHB index was in average 64, while in real terms almost 60 percent higher in Q3 2017 than it was at the end of 2013.

The housing market in Hungary continues to spin: the number of building permits issued during 2017 topped the amount issued in the previous year by more than 20 percent. Last year the number of newly built, finished dwellings has grown too: sum-total 14,400 new homes were delivered, that means 43 percent growth compared to 2016.

From the housing market perspective, the housing loans are still favourably working out as the amount of originated loans for borrowers has grown while the interest rates were cut down.

Housing prices during the first three quarters of 2017 continued to grow in all regions of Hungary. The rise was most notable in Central Hungary, where median specific prices rose by nearly 15 percent. In the breakdown by settlements, the highest price growth was in the capital city, while in smaller municipalities and towns the price rise for one m<sup>2</sup> was notably less. A change in the composition of sales could explain this behaviour, as buyers in many cases might have turned their interest towards more affordable neighbourhoods.

During the past years, a significant rise in prices was experienced not only on the second-hand property market but also on the market of newly built dwellings: between the end of 2014 and Q3 of 2017, the rate of a clean price difference for new properties was 35 percent.

## Momentum on the housing market is not diminishing

In order to generate the current index value for the indicated period, besides Takarék Group market information and our own observations, data were sourced from the National Tax and Customs Administration as well.

**The FHB House Price Index level is more than 26 percent higher than it was at the peak before the crisis**, and this is how much the home buyers had to pay more in 2017 than in Q1 2018. In real sense, the change in the previously mentioned period was not as far so severe, moreover, in real sense home prices are moving about the level before the crisis.

Based on the updated data, Takarék Group has finalized the value of FHB House Price Index for Q2 2017 as follows:

### FHB House Price Index values:

Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
220.23	226.6	233.61	<b>242.34</b>	<b>247.5</b>	<b>253</b>

## FHB Index from 1998 until 2017 Q3-ig (2000=100)

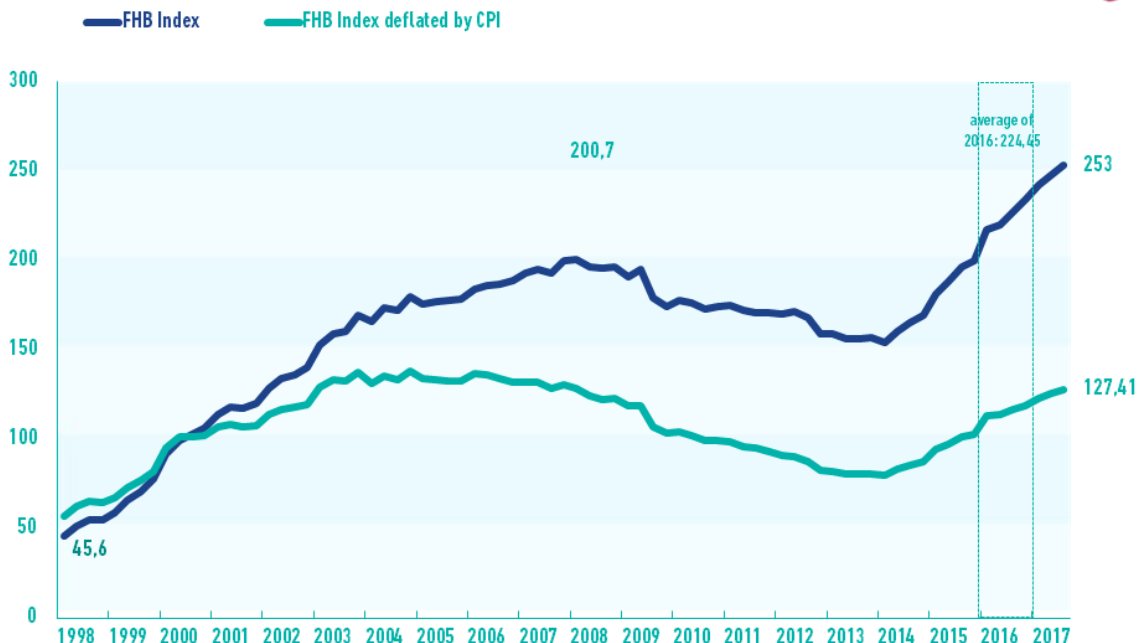


Figure 1. Development of the FHB House Price Index (Source: *FHB Index*)

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

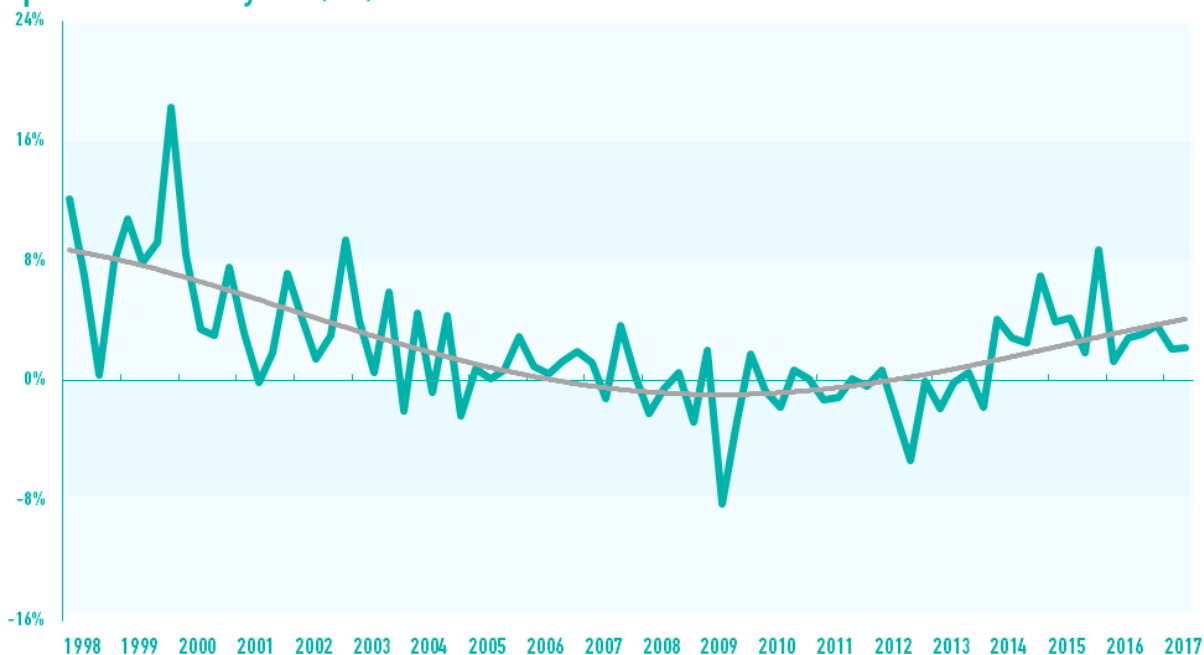


Figure 2. Short based changes of House Price Index (Source: *FHB Index*)

**In 2017 domestic housing prices rose between Q2 and Q3 by 2.2 percent, but in real terms, the growth was 1.39 percent.** The tendency of price increase did not change significantly, as following the similar rate of 2.13 in Q2 we can continuously say that based on the data there is no apparent break in the housing price increase. . (Figure 2.)

We had to pay in average 11.65 percent more in Q3 2017 for Hungarian residential properties, than in the same period of 2016, while the annual difference was 12.38 percent in Q2, and 11.5 percent in Q1. In real terms, the housing prices raised less: in Q3 the difference between 2016 and 2017 was 9 percent. During the course of the upswing which started in 2014, the nominal value of index rose by 64 percent, while the real value growth was 60 percent.

## Housing market developments

### Housing constructions are booming, but for how long?

Property builders are still active in Hungary. For instance since 2016, the number of issued building permits grew in last year by a significant 20 percent. While in 2017 almost 38 thousand permits were issued, one year earlier this number was 31,600. In the same time, during Q3 this growth showed some slowing-down. During the last three months of the year fewer permits were issued than during the same period last year. Nevertheless, the number of issued permits has notably surpassed the related data from Q3 periods of previous years.

The number of occupation permits for newly built apartments significantly grew in 2017 by 43 percent, compared to the previous year. Last year nearly 14,400 homes were handed over, a number which is significantly above the almost 10 thousand delivered in 2016. Still, this is far behind the number of issued Occupation permits before the crisis. This year we can expect further expansive growth regarding newly built apartments, providing a perspective of potentially 10 thousand homes to be delivered merely in Budapest according to the Housing Market Report, after less than 2800 delivered last year (Figure 3.).

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

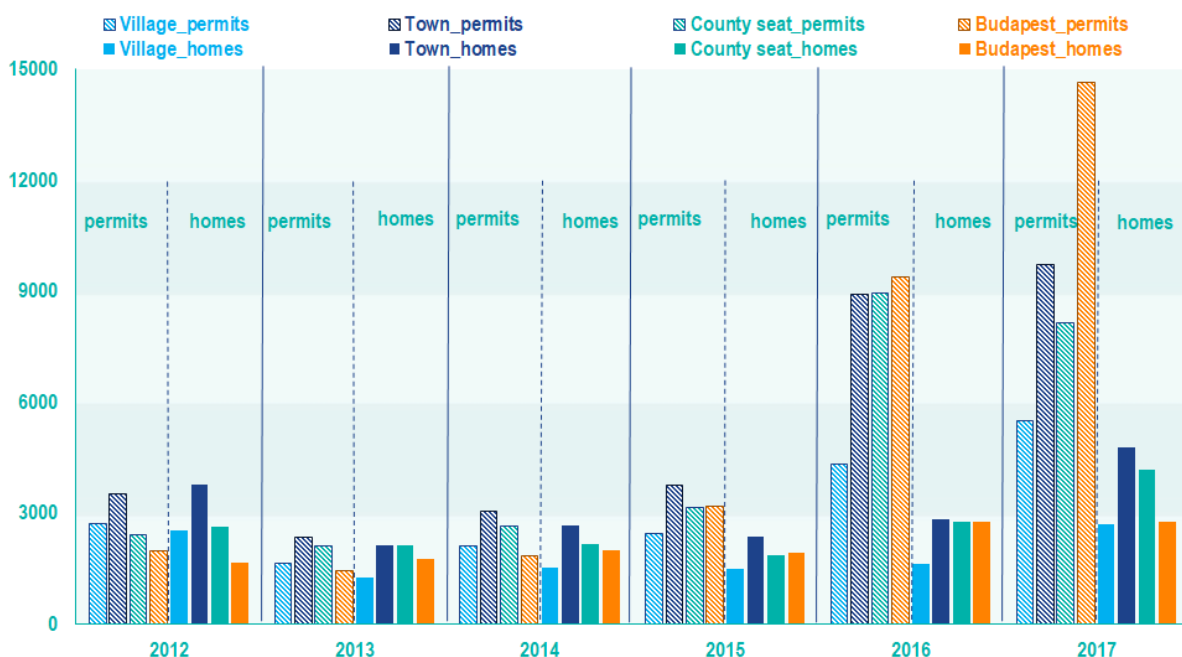


Figure 3. Number of newbuild dwellings and building permits issued in Hungary by settlement types (source: HCSO)

Expansion of housing loans is also supporting the ramp-up of the housing market. In 2017 the amount of HUF based housing loans provided to households has surpassed 650 billion HUF, what is nearly 39 percent growth comparing to 470 billion HUF from 2016. In December 2017 the average interest rate of charge for HUF based housing loans at the time of disbursal was 4.3 percent, following the slightly decreasing tendency, while the average annual interest rate weighted by the contractual amount was around 4.17 percent. (Figure 4.)

## New housing loans lent to the households

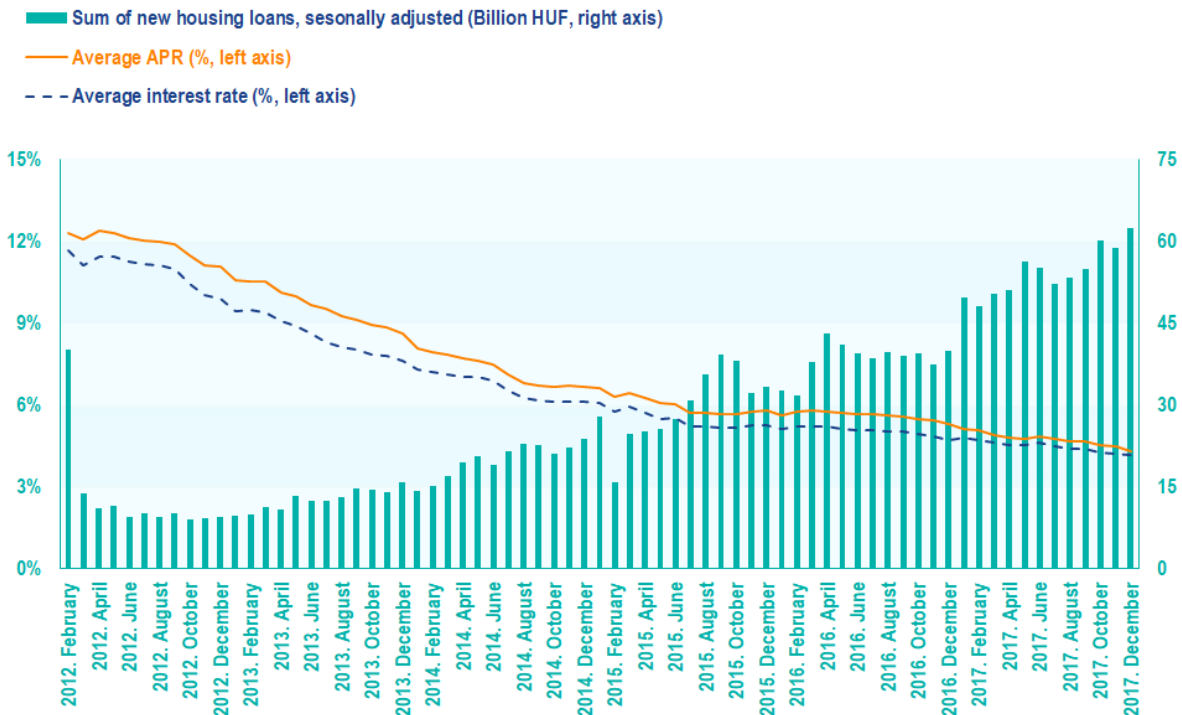


Figure 4. Housing loans: interest rate and the extent of landing out (Source: HNB)

During first 9 months of 2017, there were more than 93 thousand house sales contracts concluded, what is less than in the same period of 2016. While in municipalities it was growing, the purchasing spirit in Budapest has lessened compared to 2016 and 2015. In Capital city, 22,700 house sales contracts were established against 25-26 thousand, a number published for the Q3 periods of previous years. In the same time, it has to be mentioned, that transactions related to newly built apartments will appear in statistics only after their actual delivery, for this reason, the number above might change. For example, namely in Budapest, the amount of these transactions is significant, for there were 18,000<sup>1</sup> apartments listed according to Budapest Housing Market Report database, but only 7,450 of them was available. (Figure 5.)

<sup>1</sup> These are to be found in developments that had at least one available apartment for sale during summer 2017

## Number of home sales by type of settlements

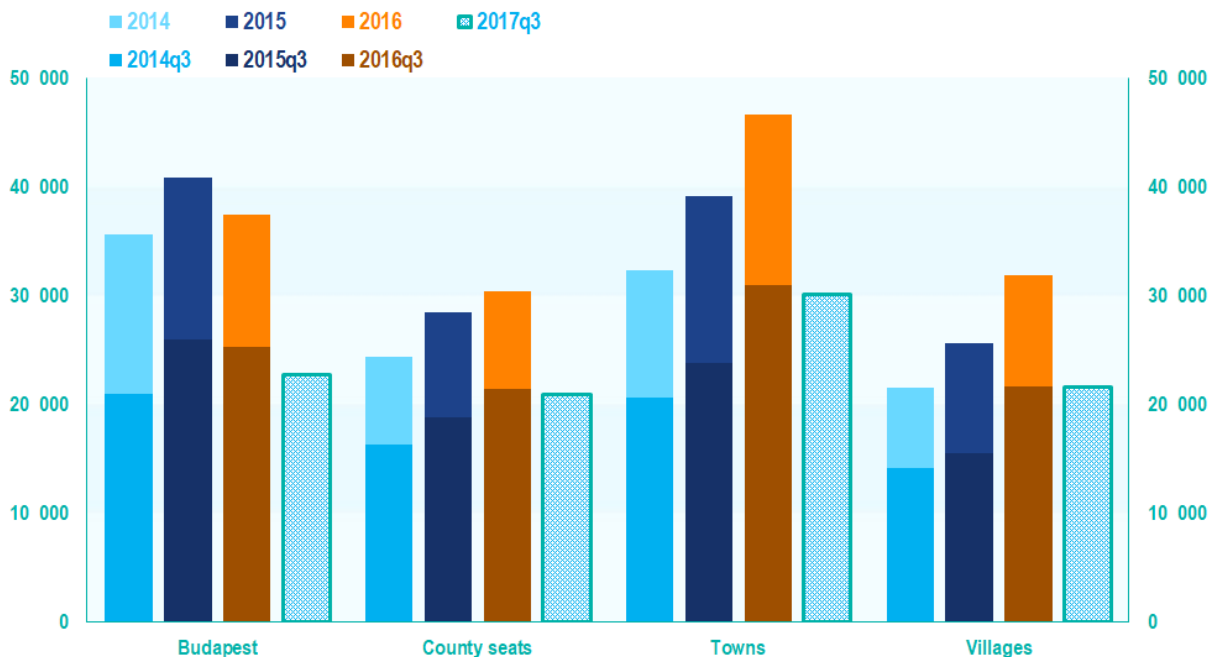


Figure 5. Development of the transaction numbers sorted by the type of settlement in period between 2013 and Q3 2017. (Source: HCSO)

## Regional development

### Central Hungary region is still the front-runner

**Housing prices grew in all regions of Hungary during first three quarters of 2017. The highest rise was recorded in Central Hungary region, where we had to pay in average 14.8 percent more for an apartment than in 2016. In the rise of median specific prices, Southern Transdanubia was on the second place with its 11.8 percent and Southern Great Plain on the third place, with its 10.7 percent price increase. The smallest rate of growth for the median price of square meter (6.9 percent) was in Northern Hungary. (Figure 6.)**

**Among the settlements in Hungary, Budapest is still featuring the highest rate of price increase in first three quarters of the 2017 comparing to average values of 2016, where median specific prices went up by nearly 15 percent. However, the rate of this growth has notably lessened, as the average values in 2016 were even higher than 2015 by 22.6 percent.**

Similarly, to capital city, the median prices for square meter of housing property also went up in county seats, where the difference was 13.3 percent. This price increase was notably less in smaller towns and municipalities, where the specific median prices rose for only 2.6 and 0.7 percent respectively. It is still true that within some settlement types there are significant differences in price developments between counties various landscapes. But also, it should be drawn to attention that these changes are related to median prices for a square meter of real estate, that is to say which in case of towns and municipalities, behind the low increment could be the change in the compound of sale, as buyers might have turned their interest towards more affordable settlements.

## Median house price in Hungarian regions

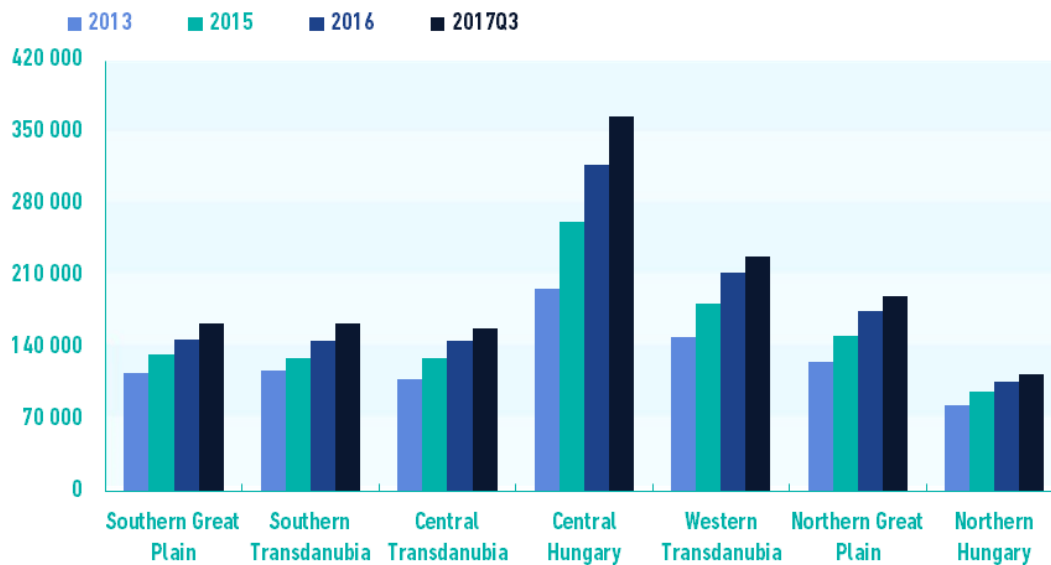


Figure 6. Median square meter price trends in regions of Hungary (Source: *FHB Index*)

### Budapest gave up the lead in price rise

**For years, Budapest was featuring the highest rise in housing prices. But this is about to change now. In 2017 the price rise in Budapest was still strong, but several provincial settlements already have reached its level.** The highest average price rise recorded for first 9 months of 2017 against the same period of 2016, was 14.7 percent, featured by Central Transdanubian county seats. Budapest have fallen to second place on the register listing settlements with highest price increase, while county seats of Southern Great Plain were taking third place scoring 12.7 percent increase. Moreover, it is typical that with exception of Central Hungarian municipalities, small settlements also had to face a faster price increase during first 9 months of 2017.

## The connection between house price (2017 Q1-Q3) and change in house price between 2016 and 2017 Q1-Q3

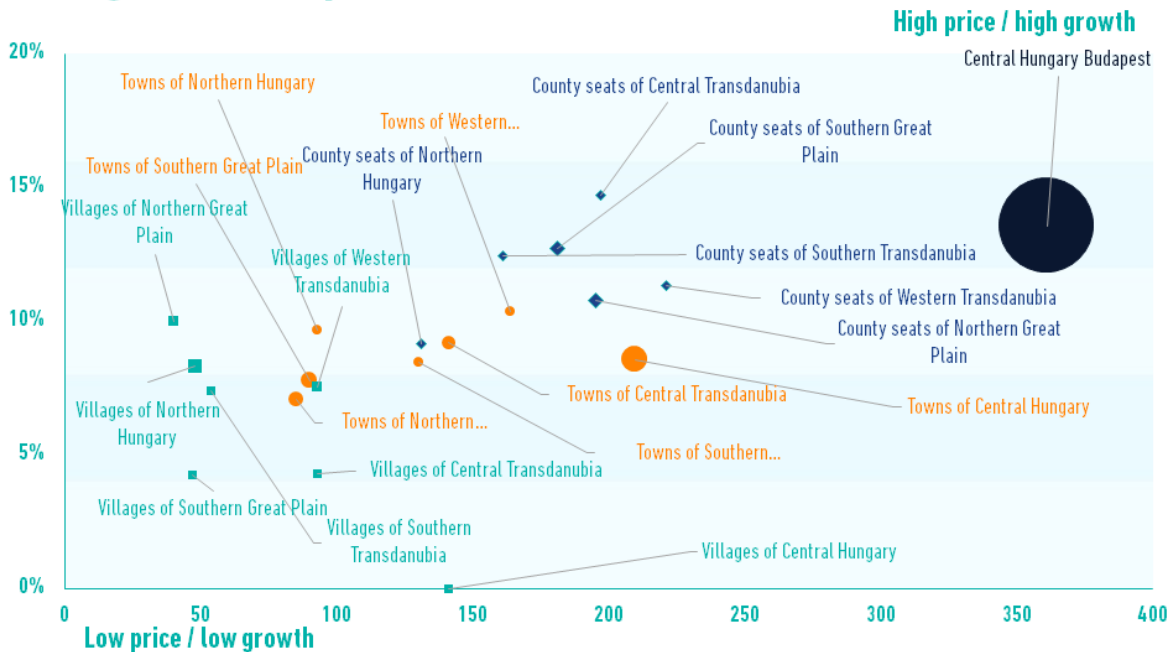
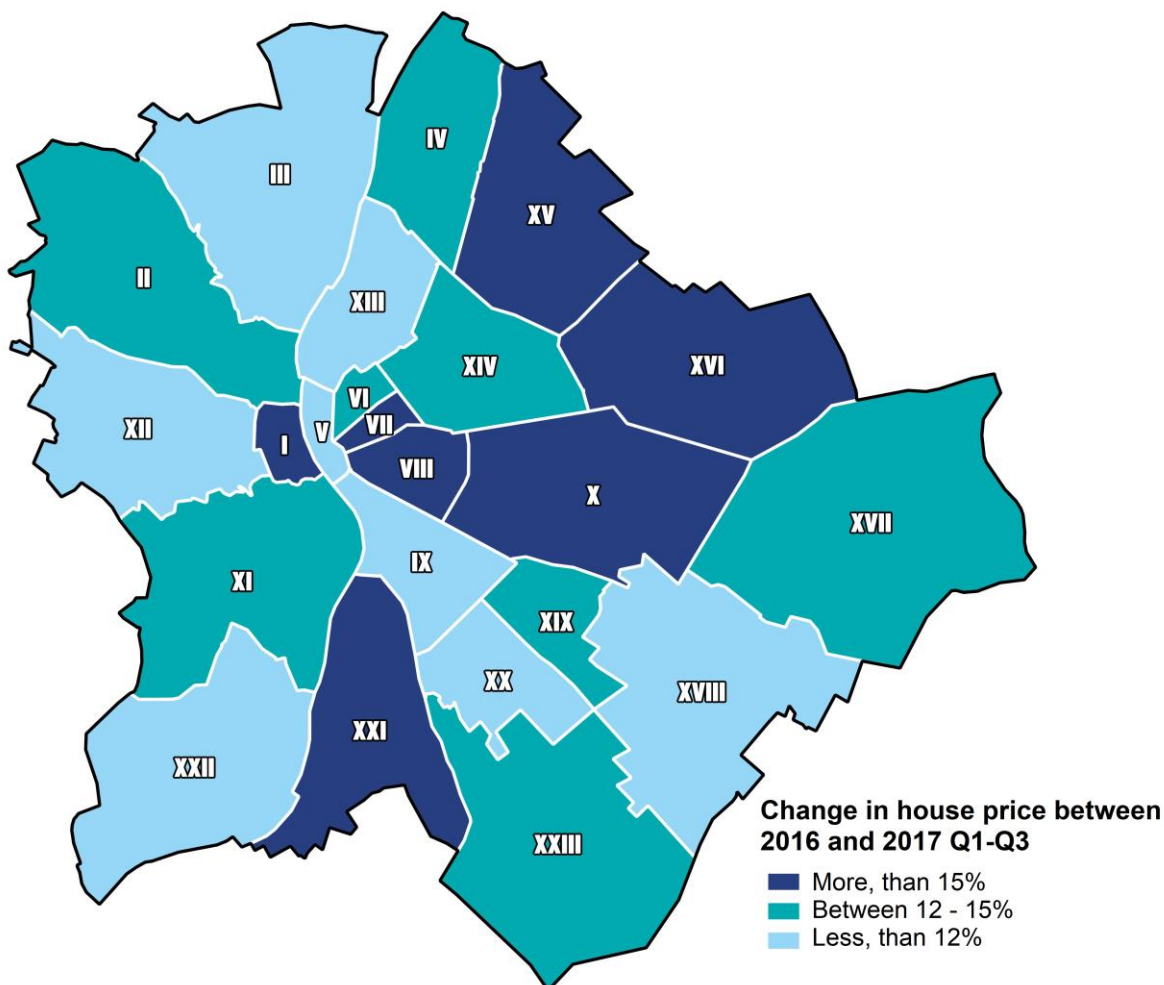


Figure 7. Changes in housing prices (between first 9 months of 2016 and 2017) and their correspondence to the specific price in first 9 months of 2017, in some of the regions of Hungary, sorted by type of settlement. The size of the circles is illustrating the market share (Source: HCSO, FHB Index)

**Budapest downtown was featuring an unbelievable rise of prices after the crisis, but the rate of this growth is in remission at most expensive locations since then.** In districts V and VI, the difference between values of increase in Q3 2017 and average values of 2016 was not significant. In the same time, highly valued VIII district had a prominent price increase, where prices rose by 21 percent from 2016 till Q3 2017. Taking into consideration the hollow-point during the crisis, at the end of this period we had to pay 106 percent more for a residential square meter in this district.

Also, several districts on the outskirts of Budapest featured notable price changes, such as XVI and XXI, which were characterised earlier by lower price increase than the city average. XV district is also excelling further. Situated on the outskirts of Budapest, it is still standing on a 6<sup>th</sup> place among all the districts regarding the price increase level. Here the average specific prices almost doubled against the lowest point of decline during the financial crisis and even in 2017, the rate of increase was 17 percent.



Map 1. Change of average housing prices in first three quarters of 2017 compared to average values of 2016 in particular districts of Budapest. (Source: FHB Index)

## The price rise for newly built apartments is also extreme.

**The price rose drastically not only for the second-hand apartments but also for the new ones.** For the period between end of 2014 and Q3 2017, the clear price difference for the newbuild apartments was 35 percent, despite that the VAT in the meantime has decreased 27 to 5 percent for this type of property. As the *Figure 8.* illustrates, after VAT reduction there is a sudden surge in change of clear prices for new apartments which, following the transient stagnation, continued to steeply elevate from end of 2016. The transient stagnation of prices at the beginning of 2016 was presumably caused by lack of already built apartments and the rise of prices could be only realized and accounted statistically when purchase contracts and deliverance actually took place.



## Change of new and secondhand dwellings' price

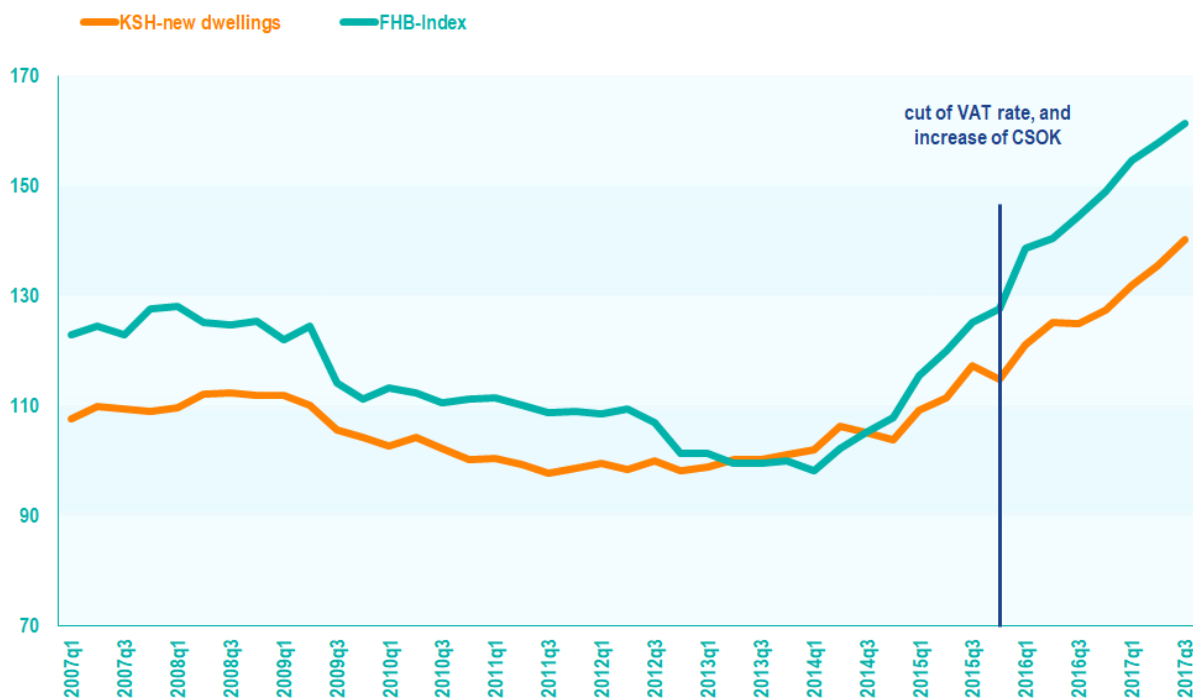


Figure 8. Clear change of prices and development of FHB Index (Source: HCSO, FHB Index)

**According to Housing Report data the situation is getting harder for those who plan to purchase new apartments. While in Q1 2016 the average specific price of vacant homes was below 550 thousand HUF, at the beginning of 2018 average price of available apartments was nearly 720 thousand HUF per square meter.** On Buda side of the capital city, the specific price of available apartments has rose since the beginning of 2016 from 600 thousand HUF to 760 thousand HUF for currently vacant apartments. On Pest side, the situation got even harder for those who intend to buy new apartment: while two years ago the average prices were around 525 thousand HUF, now the average prices are about 700 thousand HUF. (Figure 9.)

## Average house price per square meter of free, advertised new apartments

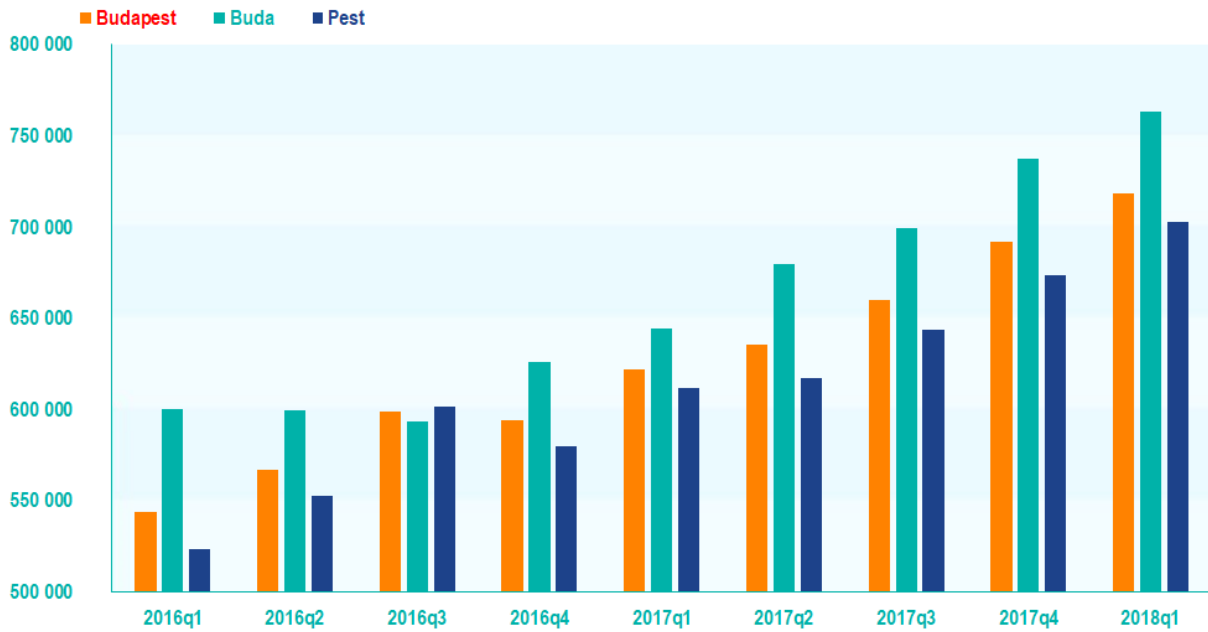


Figure 9. Development of average specific prices for currently vacant and advertise newly-built apartments in Budapest (Source: Housing Market Report)

## Our services adjacent to the FHB Index

FHB House Price Index is published quarterly. In 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, HNB (Hungarian National Bank), 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. Its model-based house price forecast methodology is relying on 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 macroeconomic and financial environment is mainly based on predictions published by Hungarian National Bank.)
- II. FHB Banking 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, provided a fast and cost-effective solution for monitoring and supervision of property value 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 of the Council (June 26<sup>th</sup>, 2013) on prudential requirements for credit institutions and investment firms (CRR), is the legal framework for monitoring and supervision of real estate values in the cover portfolio from time to time. We are proud to be a provider of services to multiple leading national banks. Thinking about 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 provide records for authorities accordingly.

We undertake numerous custom-tailored analysis and research. In 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 Credit Institutions Integration Co-operative.

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

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