

FHB House Price Index Q2 2017

Summary

As a member of Takarék Group, FHB Mortgage Bank is processing the trend of housing prices in Hungary with a unique detail. Based on the latest data, the increase of housing prices continued to grow. In Q2 2017 the index value of FHB House Price Index rose from 242.43 to 249.30, indicating a 2.9 percent nominal increase in prices compared to Q1. The index value of the house prices on the domestic market have been continuously increasing since Q2 2014; with almost 62 percent nominal and almost 59 percent real increase..

The number of building permits grew significantly in the first three quarters of 2017, indicating a 32 percent rise, compared to the same period in 2016. There are plenty of housing projects in the finish, which developers started with taking advantage of value-added tax reduction. This shows in growth of this year's annual number of built apartments, as there are nearly 8 thousand flats ready in the first quarter of the year, indicating a 50 percent growth compared to the same period last year.

From the aspect of real estate market, development of housing loans is favourable: the amount of residential loans provided to borrowers has expanded, interest rates decreased further.

In the first half of 2017 the house prices continued to grow in all regions of Hungary. Central Hungary is leading in the rise, as the price increase here is nearly 12 percent, compared to average prices in 2016. Among different settlement types, Budapest is featuring the biggest price rise, but the leeway in chief towns of counties is not significantly behind. Increasingly, it seems that other parts of the country are successfully adding to the competition regarding the rise of housing prices. The least change was featured at municipalities, where prices grew only by 1.6 percent.

Housing constructions are booming, still there is a lot of uncertainty around new housing projects. The shortage of labour force is making the realization of building projects difficult, and this might further escalate with the growth of new orders.

Housing market is speeding up further

In Q2 of 2017 the FHB House Price Index changed from the previous 242.34 to 249.30. Therefore, the price increase continued in domestic house market, and during Q2 2017 **one had to pay in average 2.9 percent more than during Q1.** In order to generate the current index, besides Takarék Group market information and our own observations, data were sourced from the National Tax and Customs Administration as well, for the indicated period.

At this time, FHB House Price Index level is more than 24 percent higher than the peak level before the crisis. This means, that buyers today need to pay more than a fifth more for the properties than in Q1 2008. However in real terms the prices are still 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 Q1 2017 as follows:

FHB House Price Index values:

Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
217.35	220.23	226.6	233.61	242.34	249.3

FHB Index from 1998 until 2017 Q2-ig (2000=100)

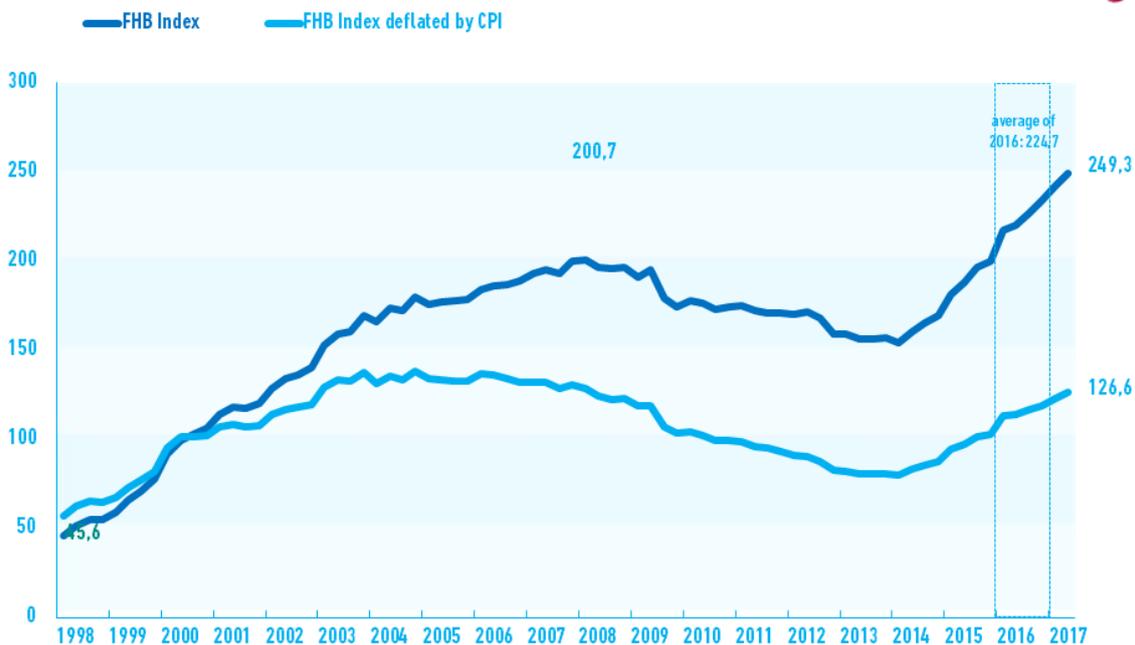


Figure 1. Development of the FHB House Price Index (source: *FHB Index*)

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

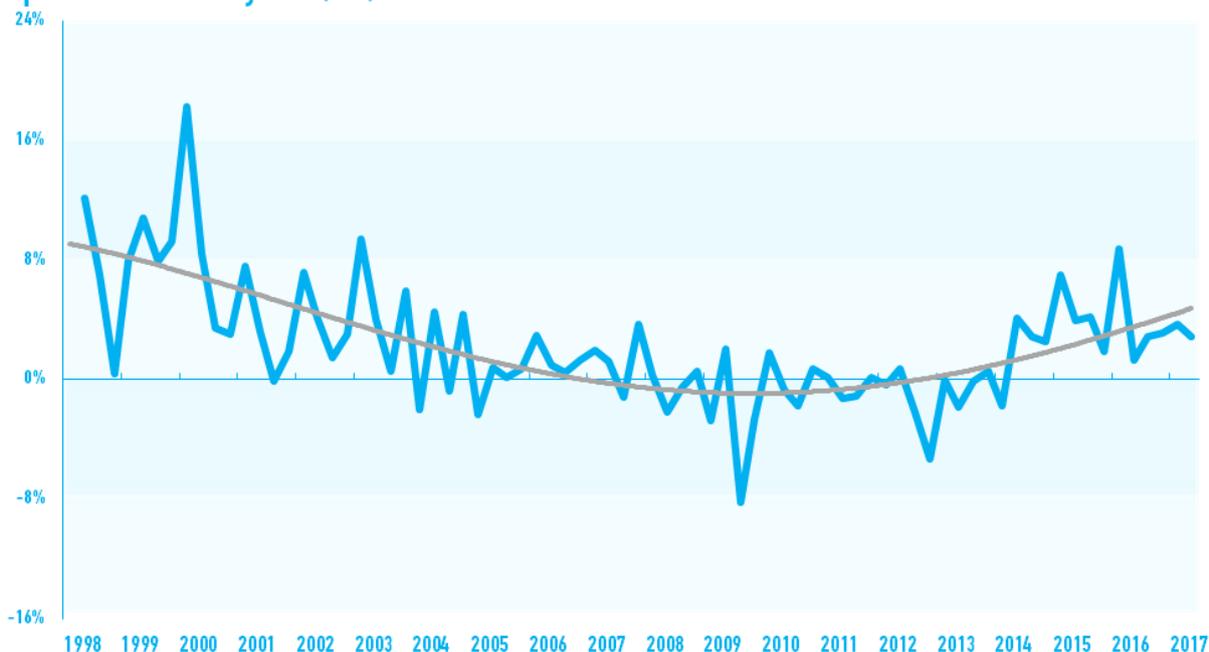


Figure 2. Short based changes of House Price Index (Source: *FHB Index*)

In Hungary, during Q2 2017 the house prices rose by 2.9 percent comparing to Q1 period and the change was nearly as high, in the sense of real value (2.8%). The price increase stays firmly, though somewhat falls

behind the rise experienced in previous two quarters of year; we cannot speak about significant difference. (Figure 2.)

At the end of Q2 2017, one had to pay 13 percent more for residential real estate than at the same period 2016, while comparing to Q2 2015, the difference is 32 percent. In the sense of real value, the housing price increase was a bit less: the real estate price appreciation was 11% a year in retrospect 11, while at the two-year horizon it was 29.8 percent. **During the elevation curve starting from Q2 2014, the index nominal value rose almost by 62 percent, while real value rose nearly by 59 percent**

Housing market developments

The country is in the course of construction

Residential housing constructions are booming in Hungary and the significant growth from 2016 is continuing. **During Q1 2017 more than 28,400 building permits were issued in Hungary. This is more than 32 percent increase comparing to the previous year and triple comparing to the number of permits issued in 2015.** Regarding the number of building permits, the leading status of Budapest is unquestionable. During first three quarters of the year, almost 11 thousand building permits were issued, a number that topped the complete previous year

This year, the number of housing constructions started to grow as nearly 8 thousand apartments were finished during first three quarters of the year, what is 50 percent rise comparing to the same period in previous year. However, we can count with significant boost during last quarter as several residential real estate projects are in plan to be finished and handed over. (Figure 3).

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

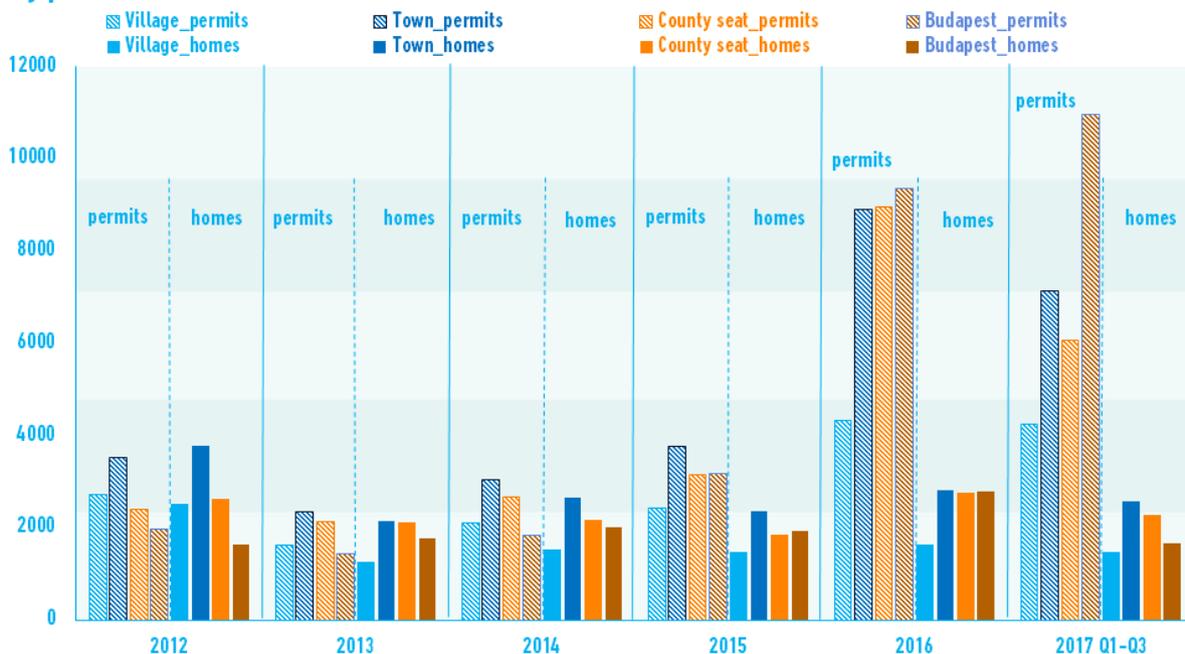


Figure 3. Number of newbuild apartments and building permits issued in Hungary by settlement types (source: HCSO)

From a housing market perspective, the housing loans are still favourably working out. This year, between March and October, the seasonally adjusted monthly value of the originated HUF based housing loans was over 50 billion HUF each month, moreover in October it was nearly 60 billion HUF. The average annual rate percentage rate of charge (APR) for HUF based housing loans at the time of origination was 4.5% in October 2017, following the slightly decreasing tendency, while the average annual interest rate weighted by the contractual amount was around 4.3 percent (Figure 4.)

New housing loans lent to the households

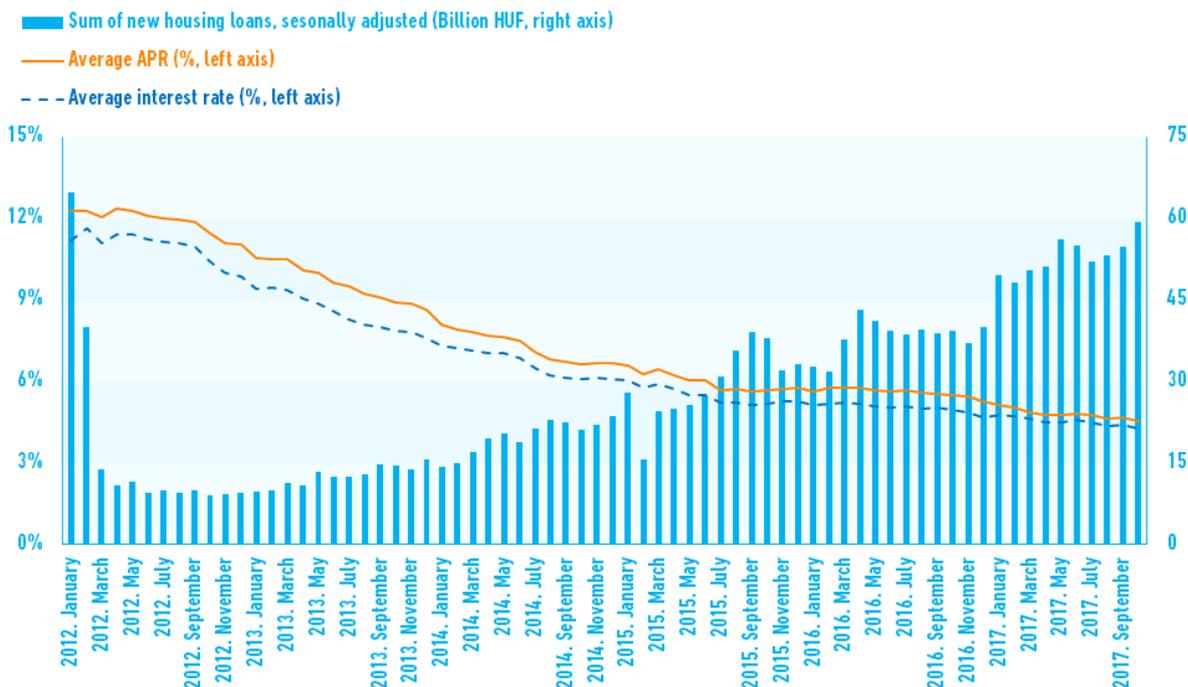


Figure 4. Housing loans: interest rate and the extent of landing out (Source: NBH)

During the first half of the year, there was more than 55 thousand house sale contracts concluded in Hungary, which is less than in the same period of 2016. The number of sale and purchase contracts decreased in all settlement types. Biggest drop was experienced in Budapest, where less than 14 thousand transactions came to realization, while in first 6 months of 2016 and 2015, it was over 15 thousand, and this accounts as remission by 11 percent. It must be said; that transactions related to newbuild apartments are not accounted in the total number of sale and purchase contracts, as the number of finished and delivered apartments is very low. Therefore, the number of sale and purchase contracts mentioned above, might have been higher, especially in Budapest. (Figure 5.)

Number of home sales by type of settlements

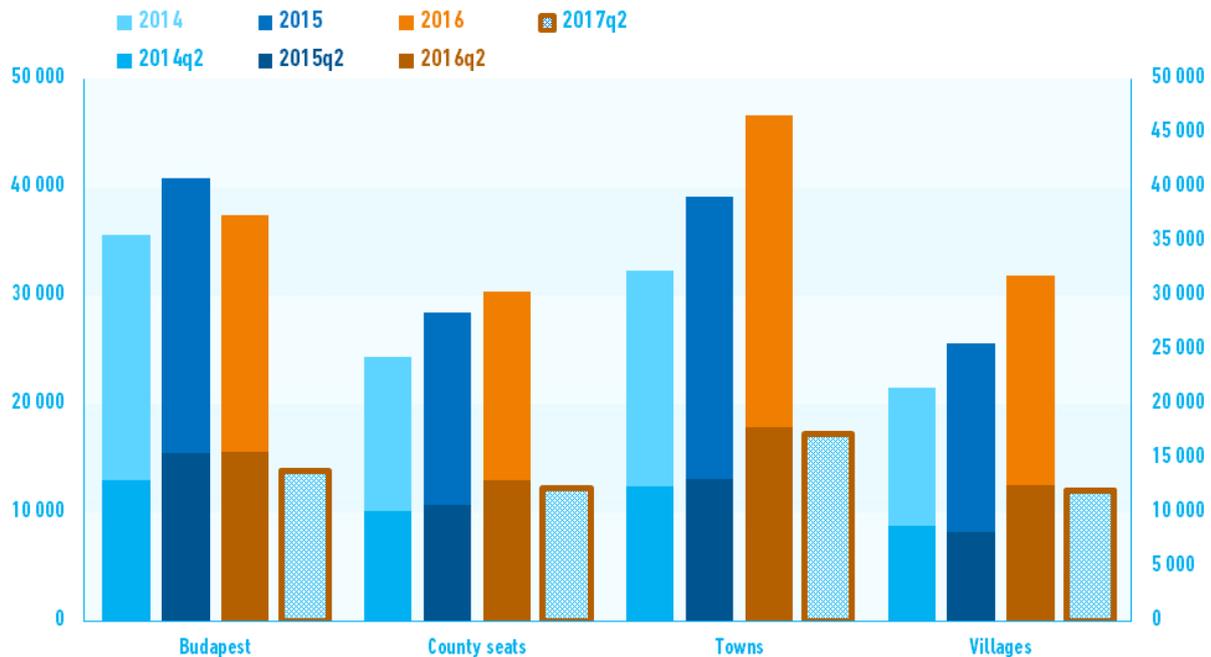


Figure 5. Development of the transaction numbers sorted by the type of settlement in period between 2013 till Q2 2017. (Source: HCSO)

Regional developments

Central Hungary continues to lead in house price rise

During the first half of the 2017, housing prices continued to grow in all regions of Hungary. Central Hungary is leading again, as prices there grew almost 12 percent, comparing to average prices for apartments sold in 2016. On the second and third place are the Southern Great Plain and Southern Transdanubia regions, with 9-10 percent price increase, while Northern Hungary has the lowest growth rate of less than 6 percent.

Within different settlement types, Budapest is still featuring the highest rate of price increase by nearly 12 percent, comparing to average values recorded in 2016. The house price increase recorded in county chef towns compared to the capital does not significantly fall behind, as prices there went up by 10 percent in first six months of 2017, compared to the average price level of 2016. The least change was featured by municipalities, where house prices went up by only 1.6 percent. It is still true regarding the formation of prices that within certain types of settlements, there are significant differences between geographically distinct regions.

Median house price in Hungarian regions

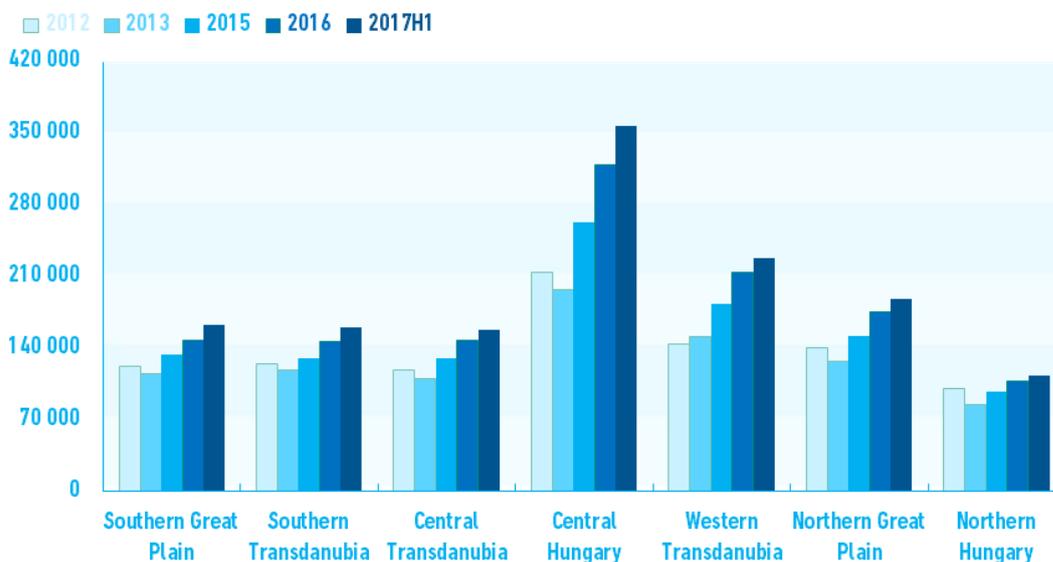


Figure 6. Median square meter price trends in regions of Hungary (Source: FHB Index)

Budapest is still leading

Compared to the bottom, it is obvious that Budapest is leading regarding house price increase, as in the first six months of 2017 one had to pay 80 percent more for the apartment compared to the bottom. **Although the capital kept its leading position in price rise for a long time, it seems that other parts of the country are increasingly picking up the competition.** For example the chief towns of Central Transdanubian counties had a 13.7% house price rise till Q2 2017, which surpassed one recorded in the area of Budapest (10.8%) while the chief towns of counties in Southern Great Plain region came pretty close, with their price increase of 11 percent, all comparing to average values recorded in 2016. (Figure 7.)

The correspondence between House Price (2017 H1) and change in House Price (2016-2017 H1)

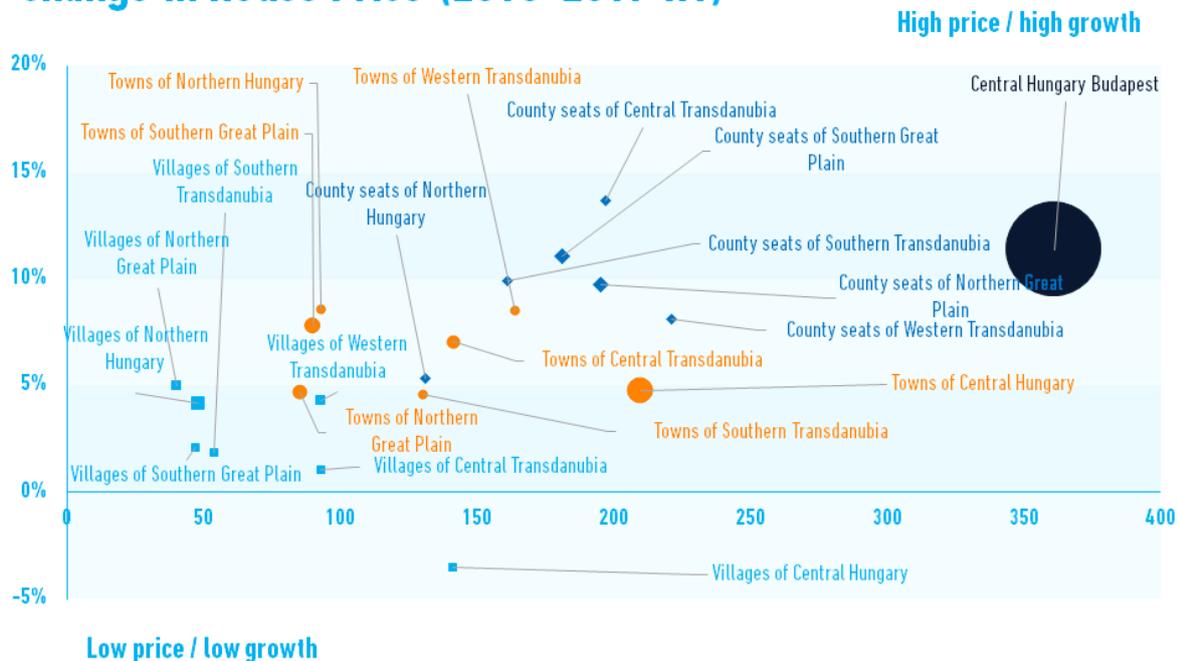
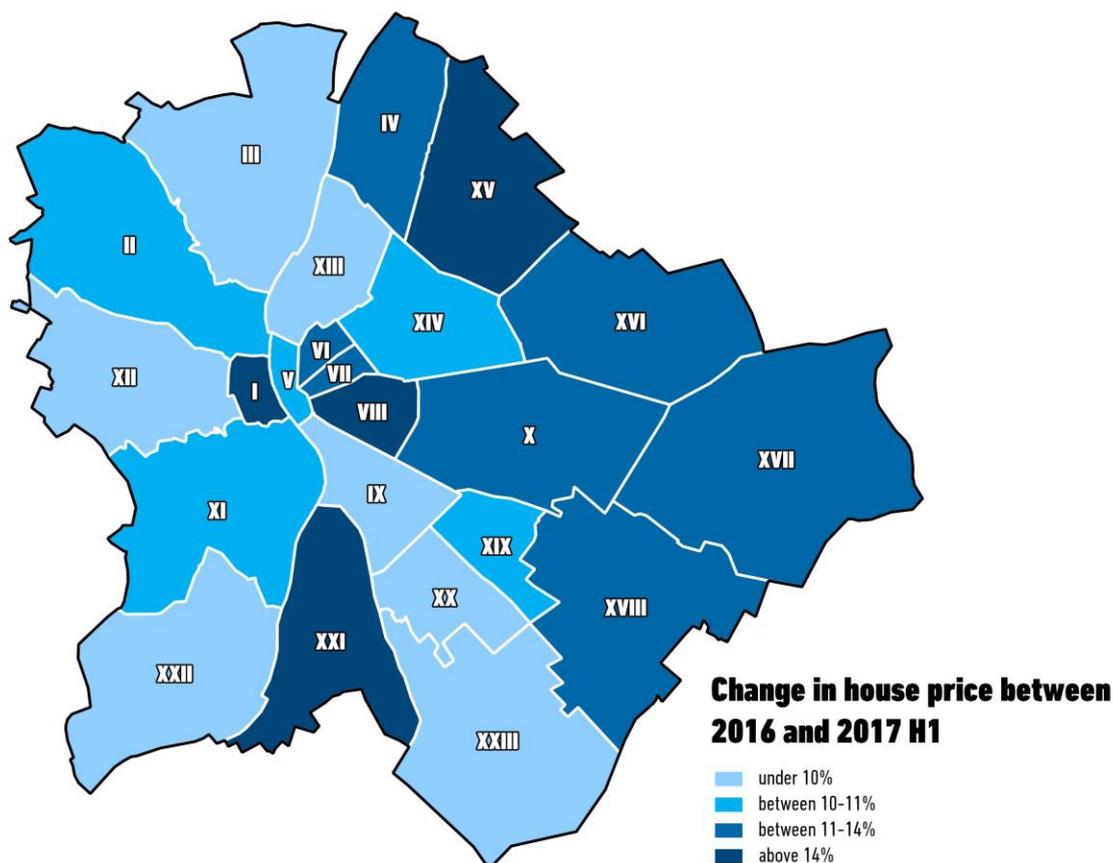


Figure 7. Changes in house prices between the first half of 2016 and 2017, and their correspondence to the specific prices in the first half of the year 2017 in some regions of Hungary, sorted by type of settlement. The size of the circles is illustrating the market share. (Source: HCSO, FHB Index)

Compared to the bottom, the expansion of downtown Budapest is high, as in districts V, VI, VII and VIII prices doubled till the end Q2 2017. But also, the rise in prices was outstanding in districts II, IV, XV and I, where price growth was between 80 and 100 percent. Comparing to the bottom, the pricing of districts at Budapest outskirts had changed the least. But even so, the rate of increase exceeded 60 percent in most of the cases.

Our study of house price levels is not limited to the comparison against bottom during the crisis, as we also provide insight to how did prices change till Q2 2017 against the average prices of 2016. In the period under review and as shown in Map 1., despite the previous good performance, the biggest race of price per home was no longer in downtown Budapest. On contrary: the performance of the V.th district was quite modest in comparison with other districts. Prices in I, VIII, XV and in XXI districts have increased the most, where the rate of change was above 14 percent. It is also characteristic that districts that had a low rate of price rise before, have experienced a significant increase as prices went up by 11-14 percent in districts XVI, XVII and XVIII.



Map 1. The change of average house prices districts of Budapest during first half of 2017, compared to average values recorded in 2016. (Source: *FHB Index*)

What is the problem with the new home market?

New housing constructions gained momentum as the VAT was reduced from 27 to 5 percent. **Projects launched after this event are slowly approaching their conclusion and this seems to be showing in the number of apartments that are handed over.** For example, in Budapest, until the end of the year of 2017, there could be 1000 apartments more completed than last year, and in the following years, even more, homes can be handed over. In 2018, in projects containing more than 4 housing units, the number of new apartments could be close to 9 thousand, while developers already announced 7400 apartments to be completed in 2019 according to Budapest Housing Market Report.

These days, however, there is a growing uncertainty around the expected completion of a building project. Also, according to Budapest Housing Market Report about half of these projects already announced the delay in delivery time, right at the beginning. (Figure 8.)

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

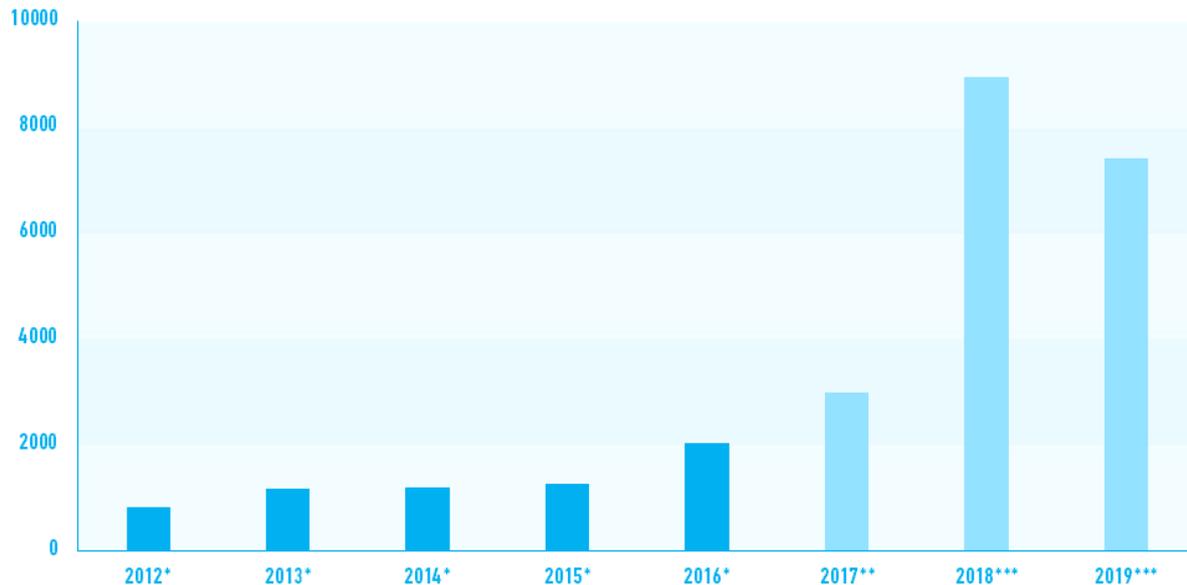


Figure 8. Number of housing units in Budapest delivered in previous years and planned to be completed in future, according to the date of their delivery and based on data available in Q4. (Source: KSH, Budapest Hosing Report)

* 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 3 quarters of the year 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

Shortage of labour force

Regarding the delay in delivery of apartments, lack of labour force is playing a huge role, as developers have difficulties finding building contractors with suitable capacity. The deficit of labour in Hungary is the source of significant problems in other sectors as well. **In Q3 2017 there were over 73 thousand job vacancies, which is in a proportion of 2.4 percent for this period.** However, different economic sectors are not equally affected by the deficit. The most affected are processing industry, missing more than 20 thousand workers and the job vacancy proportion is 3 percent. Lack of skilled labour is high in human medical and social care sector, also in administration and service support, where first is having more than 8,600 job vacancies and the last close to 8 thousand. The proportions are 4.8 and 3.5 percent respectively.

Comparing to these, 3377 vacant posts in building industry does not seem prominent, it is on the 8th place among the other economic sectors regarding job vacancies. In terms of proportion, the picture is more deteriorating as its result of 2.7 percent is the 5th worst among other economic sectors. However, the cause of particularly great worries is that lack of labour and number of vacancies has grown significantly in last two years. **In terms of proportion, the building industry is leading incomparably with the highest rate of change in job vacancies, as the ratio of vacant posts in Q3 of 2017 was higher by 190 percent than two years earlier.** There was no example of this level of deterioration in any other sector of the Hungarian economy. (Figure 9.) In turn, the number of vacancies is steadily increasing due to the significant volume of orders in the construction sector.

Proportion and change of job vacancies in the different economic sectors (%)

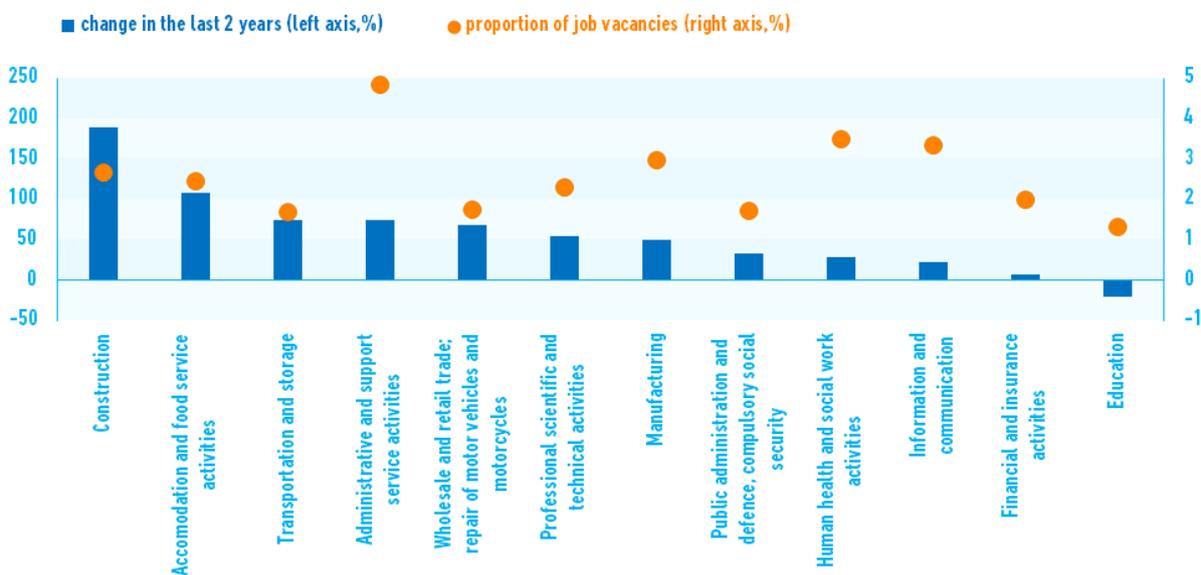


Figure 9. The percentage of vacant posts in Q3 2017 and the percentage of vacancies in the last two years in certain economic sectors in Hungary. (Source: HCSO)

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 relying on following pivot:

- I. It is identifying correlations between chosen macroeconomic indicators, money- and loan-market indexes, 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 26th, 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.

FHB also undertakes the preparation of unique research products meeting individual needs. 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 the Integration of Co-operative Credit Institutions.

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

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