



Record high volume of lending for housing purposes and low supply of new homes - Housing Market is at risk?

The housing market represents a key area at the level of the individual economic agents (households, financial institutions), as well as at the level of the national economy. Housing market developments are closely related to financial stability issues and also fundamentally determine the short and long-term prospects for economic recovery. Overall, it can be stated that the housing market is intrinsically linked to all areas of the national economy. Housing market developments, in particular the volatility of housing prices, influence the savings and consumption decisions of the household sector through their financial position, and also influence the portfolio, profitability and lending activity of financial institutions through the stock of mortgage loan collateral - thus we refer below to the most important findings of the [MNB report](#).

Executive Summary of the MNB Report

- [1] "The Hungarian housing market started 2021 with a significant recovery. After the reopening of the economy, the labour market began to rebound rapidly, with employment advancing to an historic high in the summer months. In line with this, households' real income also grew in the second quarter. The new housing subsidies available from the beginning of the year made a major contribution to boosting housing demand.
- [2] Hungarian house prices rose further. Rural towns observed a sharp rise in prices, and – after one year of stagnation – house prices in Budapest also increased. The gap between prices in Budapest and the county seats narrowed in 2021. The annual growth rate of house prices accelerated to 13.3 per cent on a national average in the second quarter of 2021, while in the same period annual price dynamics rose to 9.1 per cent in Budapest and 18.2 per cent in rural towns. The risk of house price overvaluation relative to fundamentals increased on a national average, while in the capital it is once again approaching the levels seen in 2018–19. The price rise in the property market was not accompanied by the penetration of risky lending. However, the low supply of new homes compared to the level of demand is not sustainable in the long run.
- [3] In the second quarter of 2021, credit institutions concluded housing loan contracts with households in the amount of HUF 364 billion, exceeding the volume concluded in the same period of previous year – which was affected by the first wave of the pandemic – by 81 per cent. The new housing subsidies available from 2021 played a key role in the historically high level of disbursements. Credit demand is expected to grow further in the second half of 2021.
- [4] On 4 October 2021, the MNB launched the FGS Green Home Programme (GHP). Indirectly, the programme also encourages the supply side to build environmentally sustainable new residential properties. Members of the



Housing and Real Estate Market Advisory Board (hereinafter: LITT) are of the opinion that demand for new homes expanded significantly as result of GHP. They welcomed the fact that energy efficiency appeared in the housing and funding market as a key criterion, as a result of launching the programme

- [5] Demand and supply anomalies in connection with economic reopening led to sharp rises in construction material prices and shortages of materials at the global level. In Hungary, construction prices rose well above the EU average in recent years due to low capacity, competition and competitiveness problems. Continued, dynamic rises in home construction costs going forward would significantly deteriorate the situation of the housing market. On the one hand, fewer housing investments would be launched due to lower construction profit margins and, on the other, the quality of the stock of dwellings would also deteriorate due to the lack of improvements.
- [6] In the first three quarters of 2021, the number of new home completions dropped by 1.7 per cent in an annual comparison. In Budapest, the number of home completions rose significantly in this period due to projects originally planned for 2020, but postponed to 2021. At the same time, in the countryside the number of home completions dropped by 27.3 per cent in the first three quarters of 2021. As a result of the temporary reintroduction of the preferential VAT rate on housing in early 2021, propensity to build new homes rose again, based on the number of newly issued building permits. To further increase this, steps are needed that promote supply in a sustainable manner. The new home market has been characterised by significant price appreciation since the second quarter, which indicates low supply relative to demand. According to our estimate, new homes that are environmentally more sustainable are offered with a price premium of roughly 3.5 per cent. However, in the long run the higher price may be recovered due to the more efficient maintenance and more stable value, and the interest rate advantage provided by FGS GHP may offset the higher asking price" – states the Housing Market Report published by the Hungarian National Bank ("MNB") in November 2021.

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