



FHB House Price Index Q2 2015

FHB House Price Index

Prices continued to rise

The FHB House Price Index **increased to 184.2 in the second quarter of 2015**, which means a 2.7 percent nominal and a 1.7 percent real price growth. In order to prepare the current index, FHB used its own updated market information and observations, as well as all the data of the National Tax and Customs Administration (NAV) processed for the indicated period.

According to FHB House Price Index, residential real estate price levels are close to that of early 2006, while their level was also similar in mid-2009. Despite the continued growth, average price still did not reach pre-crisis levels; **the market value of residential real estate remained more than 8 percent below their 2008 peak**.

Based on the updated data, Q1 2015 data of FHB House Price Index was finalized as follows:

Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
153.92	160.28	164.95	169.21	179.36	184.2

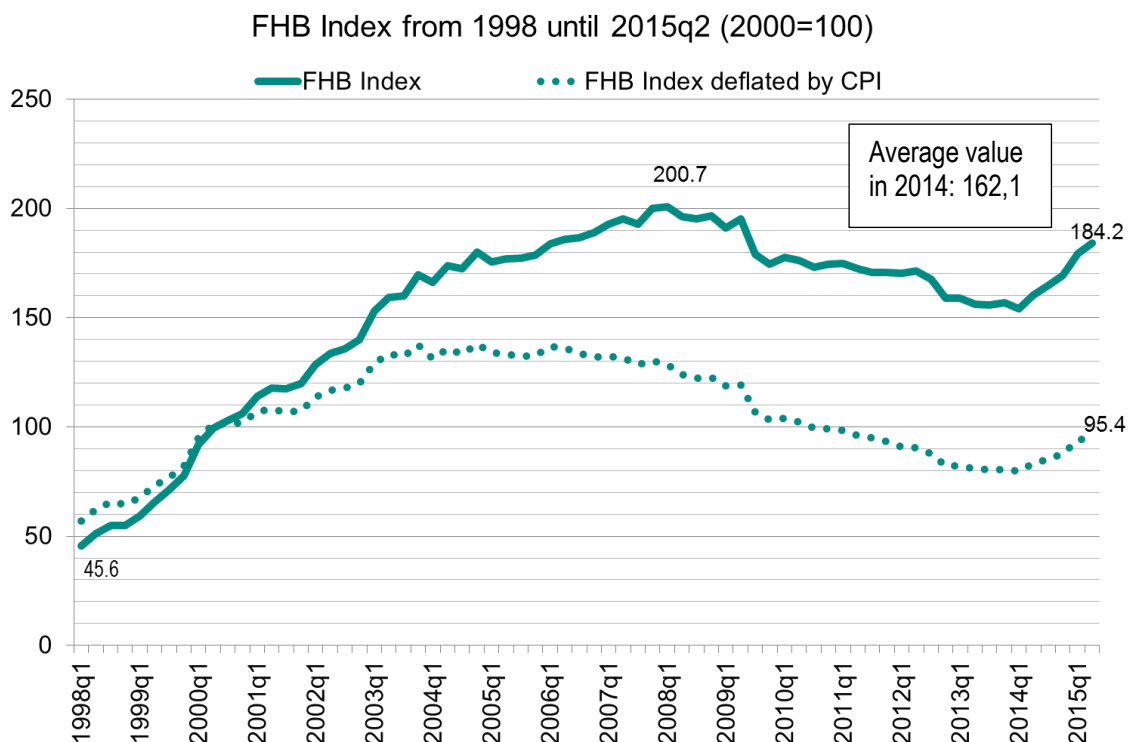


Figure 1. FHB House Price Index (Source: [FHB Index](#))

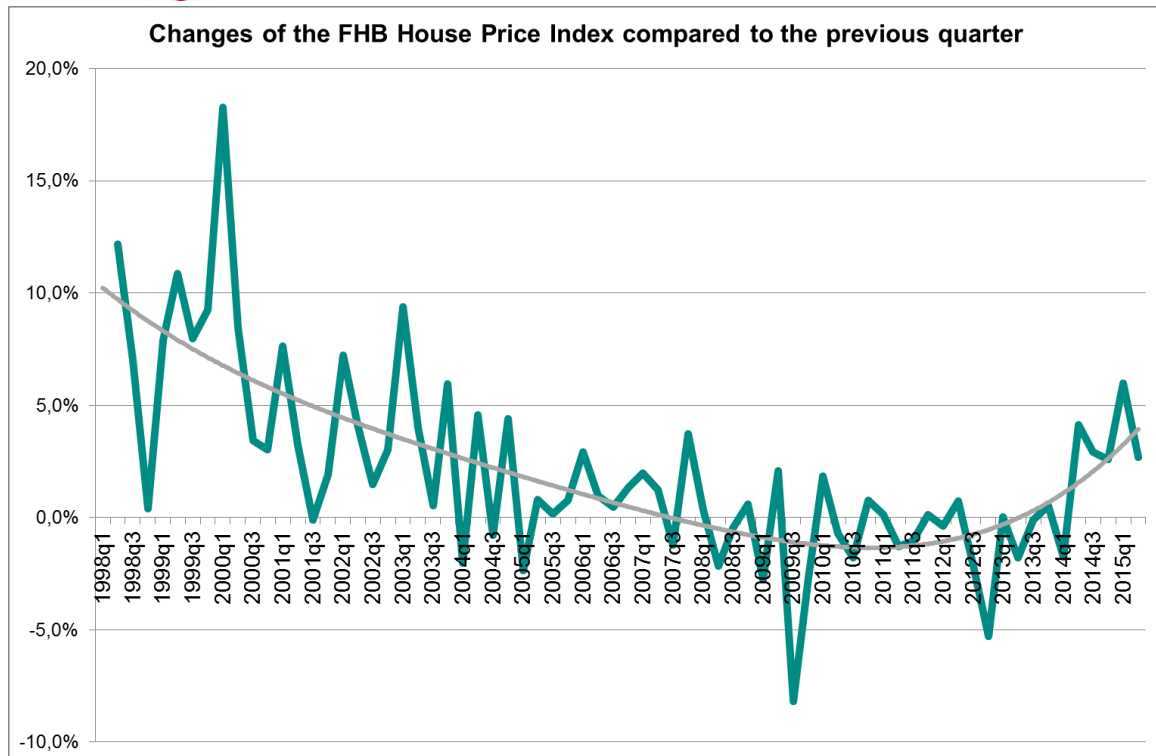


Figure 2. Changes of the FHB House Price Index on a quarter to quarter basis (Source: [FHB Index](#))

The price increase has been constant for over a year in the Hungarian market, **although Q2 could not reproduce the outstanding 6 percent quarterly price jump**. Price increase returned to the **previously measured 2-3 percent level**. The prominent value of Q1 can nonetheless be explained by a simple methodological change: transactions effectuated by National Asset Management Company (NAMC), previously included in FHB calculation (Figure 2), were removed from the database; and this single change could account for a 3 percent raise in the Index. NAMC purchases were discussed in a separate analysis, available on FHB Index website.

In short, Hungary's domestic housing market is on a continuous rise: house prices have been growing **for over a year since the upturn**, between April 2014 and June 2015, and **prices grew by 14.9 percent in nominal, and by 14.6 percent in real terms**.

Housing market trends

New building is slow to pick up

In Q3 2015 over 3,000 construction permits were issued, while a total 8,616 permits were released between January and September this year, a thousand stronger than the number registered this period last year, accounting for a 24 percent increase. At the same time, this is largely thanks to the prominent increase of the first two quarters, and the July-to-September period contributed only 3.3 percent to this result. **A growth in the number of permits issued is clear, although their number still lags far behind the pre-crisis values**.

The number of dwellings handed over remained at the level of the previous two quarters between July and September, and showed a slight decrease compared to the same period in 2014. **In the first three quarters a total of 4,657 new dwellings were finished**, which surpassed the lowest value measured in 2013, but **remained below the 5,144 new homes handed over the same period last year**. Developments are, therefore, slow to pick up, but the housing market upturn is due to spurt new investment

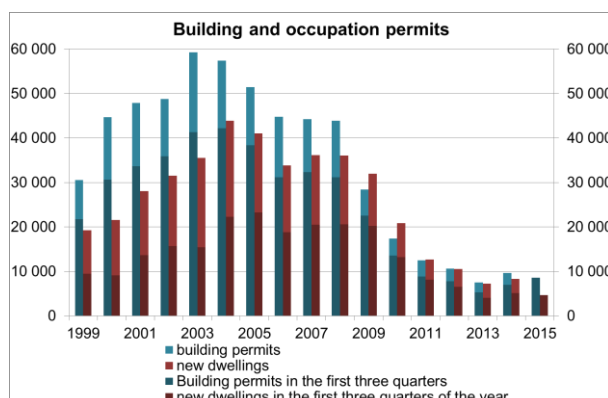
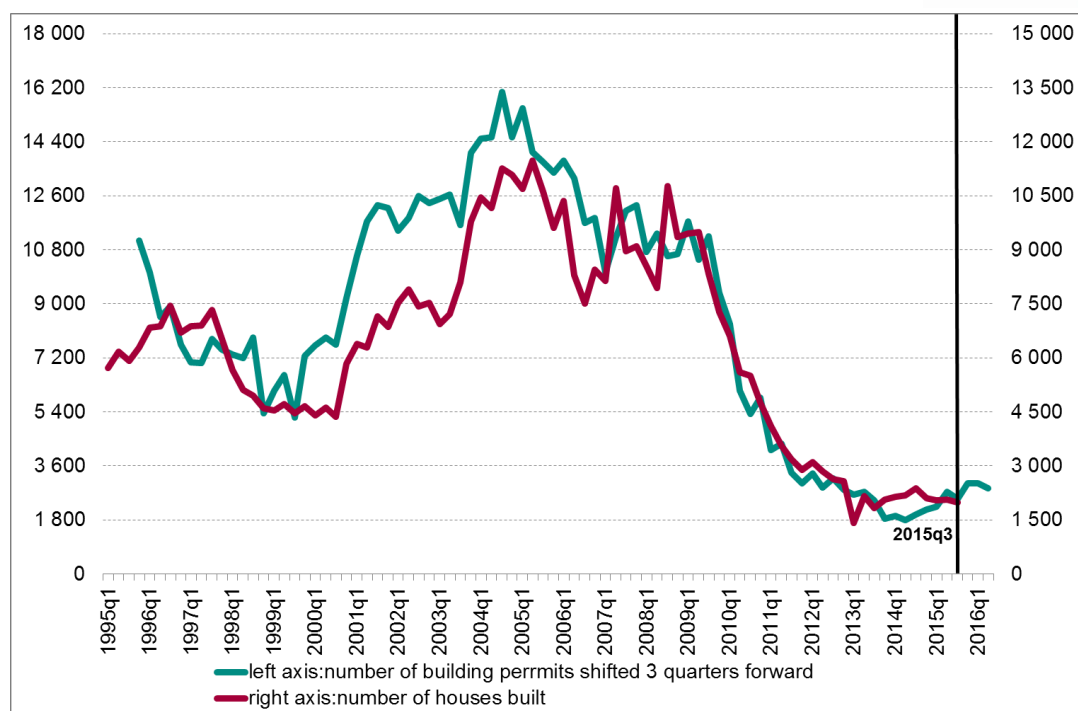


Figure 4. New-build houses and the number of building permits issued in Hungary (Source: HCSO)

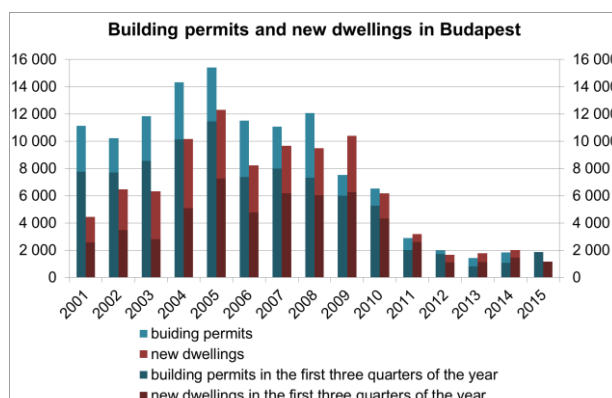


Figure 5. New-build houses and the number of building permits issued in Budapest (Source: HCSO)

The increase in issued building permits in Budapest grew steeper than in the rest of the country during the first three quarters, it increased by 73 percent since 2014 in a year-on-year comparison. This was greatly helped by the tripling of issued permits in Q1, and the 45+ percent raise in Q3. Nonetheless, hardly any new apartments were built in the capital, as reflected by the mere 1,163 occupancy permits between January and September, which lags behind the same period last year by 21 percent. (Figures 4 and 5.)

The housing lending market remains strong, and its growth even surpassed previous quarters in Q3. Total Hungarian Forint based lending volume in this quarter was above HUF 110 billion, showing a 43.5 percent raise compared to the previous quarter. New lending in September exceeded HUF 40 billion, and in the previous month too it was well above 30 billion.

The percentage rate of HUF based house purchase loans continued to drop in Q3. In September 2015, the average rate of house purchase loans was 5.6% at disbursement, and the average annualised rate weighed by the full contractual amount was the same. (Figure 6.)

The interest rate of loans offered by FHB Bank range from 3.60 to 5.85 percent (APR: 4.22-6.59%) for „FHB Six Reference” loan for property purchase linked with the 6-month BUBOR, while the interest rate of „FHB Five

Fix” loan with a 5-year fixed interest period is between 5.25 to 7.50 percent (APR: 5.95-8.36%). State subsidized home loans are available with a 4.00-6.00 percent (APR: 4.97-7.71%) net interest rate. The level of interest in Home Financing Subsidy for Families (HFSF) available from July 2015 is steady; and at least 40% of clients also took on a loan.

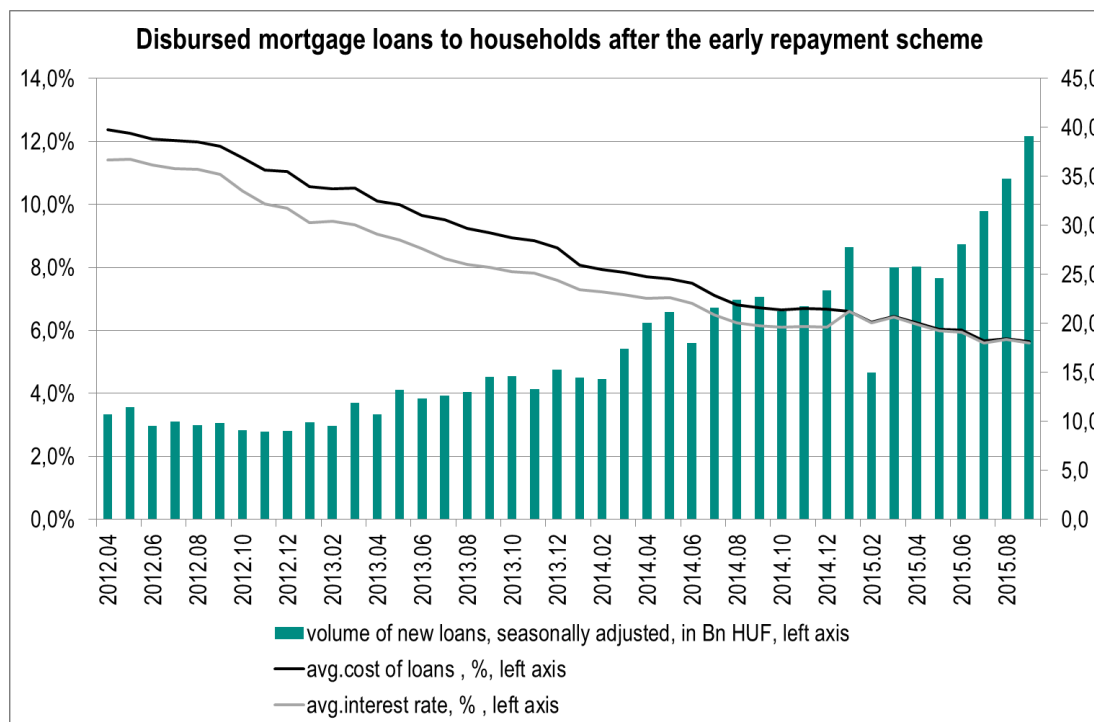


Figure 6. Interest rates and the value of disbursed residential loans (Sources: HCSO and FHB estimate)

The upswing of the housing market has been going on for over a year, and last year’s housing market transactions exceeded 100,000, a level unseen for many years; real estate networks forecast an estimated transaction number of 150,000 for 2015, a level last reached in 2008. **The upswing is expected to continue, the number of transactions is foreseen to grow, which could have a positive effect on prices as well.**

Regional trends

Prices rise nationwide

Previous publications discussed the enduring polarized nature of the national housing market. The upturn gradually reaches every sub-market; the housing market growth reached nearly all the country by 2015. (Figure 7.)

Central Hungary is in the leading position: price increase here reached 17 percent so far this year. Price growth was also significant in the Northern Great Plain and Northern Hungary regions, although filtering out NAMC transactions is of high importance here, meaning the real growth is somewhat more moderate. **The smallest growth this year will be measured in Central Transdanubia**, although here too the growth rate is expected to reach 9 percent. Despite the positive regional image, **some settlement types** still show stagnation, if not significant contraction. Aside from townships, though, every settlement type is foreseen to show strong price increase. **The highest growth –17.1 percent – will be measured in Budapest**, but it is expected to surpass ten percent in towns and county seats as well. It must be emphasized though that NAMC data were filtered out of the database this year, which most likely means that real growth is somewhat slower, especially in smaller townships where the share of NAMC purchases was higher in the past years.

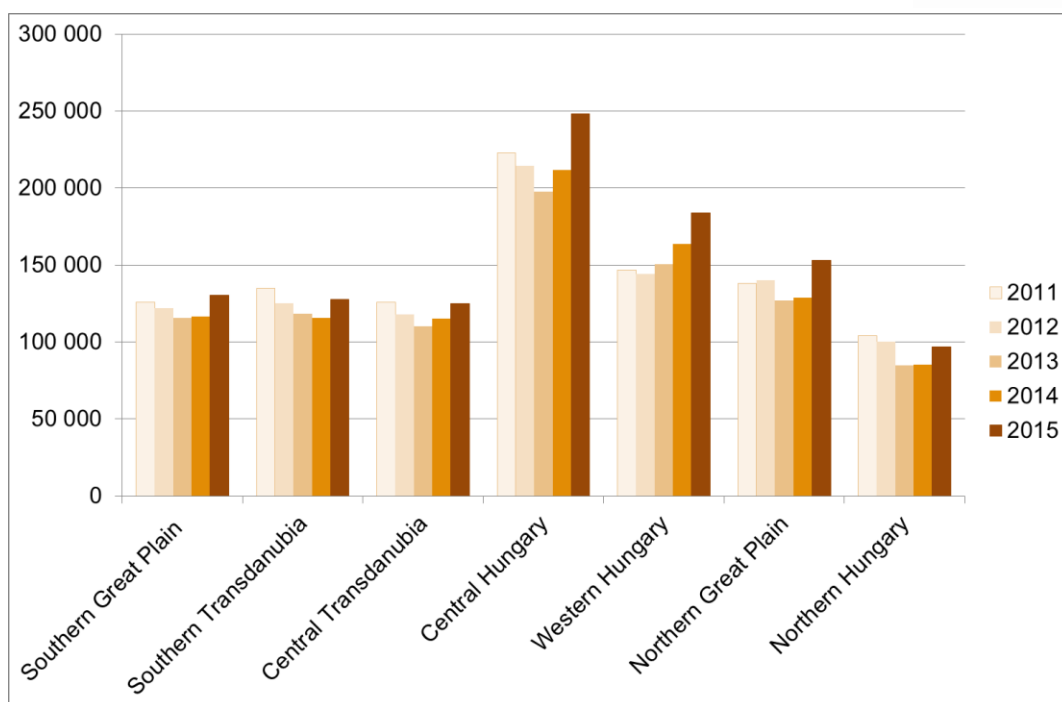


Figure 7. Change in median square meter prices in the regions of Hungary (Source: FHB Index)

Two-speed consolidation

The years of recession seem to have put less strain on the more expensive districts of Budapest (Figure 8.), the costlier districts suffered a smaller price drop than the less expensive ones. In many locations – particularly the ones that had been more expensive before – current prices exceed their 2008 level. At the same time the less pricey areas still lag far behind their pre-crisis price levels.

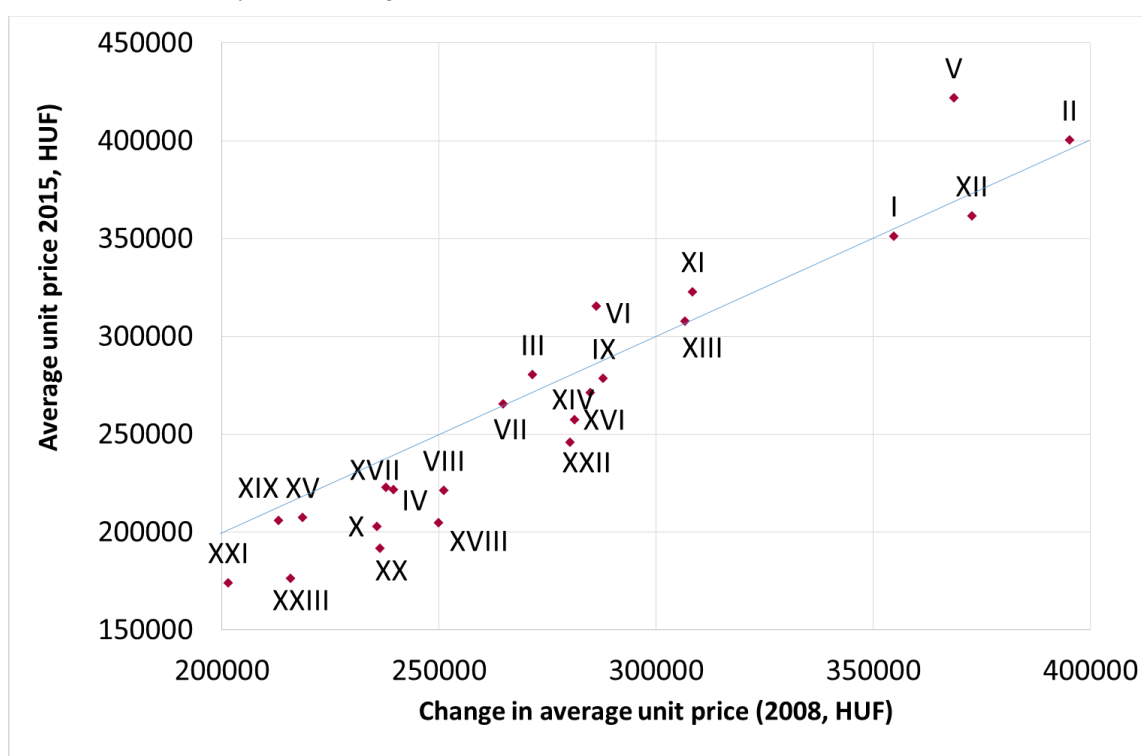
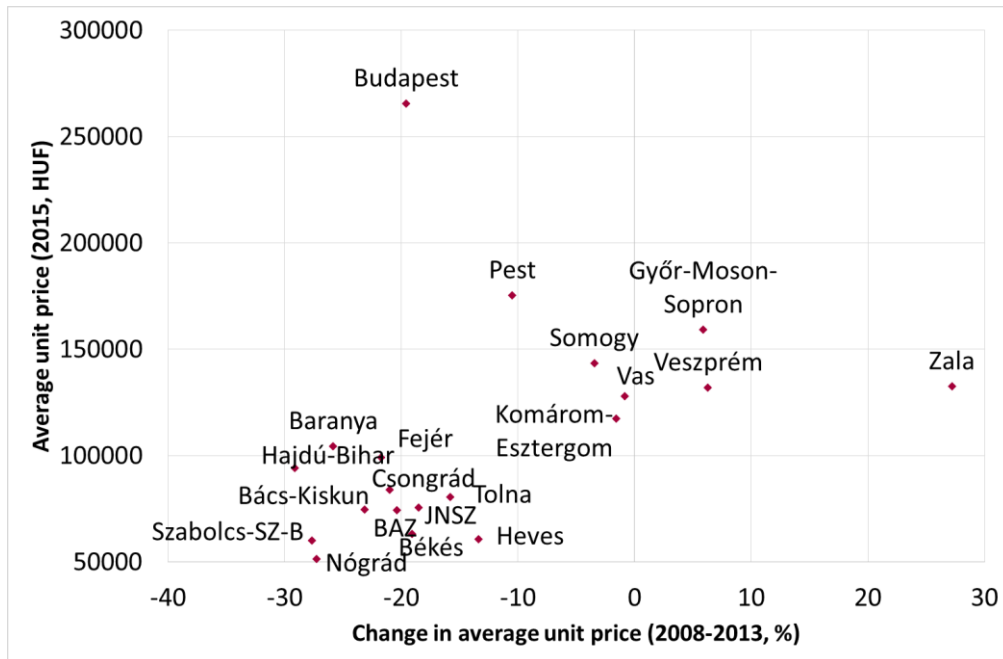


Figure 8. Relationship between current level and change of average unit price in Budapest (Source: FHB Index)

The trends seen in the capital's districts hold true to **counties** as well. More expensive locations were hurt less by the crisis; and in fact, **Western counties are in an exceptional position: prices here continued to grow during the recession** (Figure 9). In the Northern and Eastern counties, however, prices were the lowest to begin with, and the drop was the largest. In many counties **current house prices exceed pre-crisis levels, particularly in Western Hungary**, while on the East, prices are further away from their 2008 levels.



9. ábra. Relationship between current level and change of average unit price in the counties (Source: *FHB Index*)

Taking these trends into consideration, we can conclude that the current period is characterised by a **two-speed recovery** (Figure 10). In favoured locations prices are returning to their previous level, and even the number of new constructions may begin to rise soon. In lower income regions though, the upturn is slow and gradual.

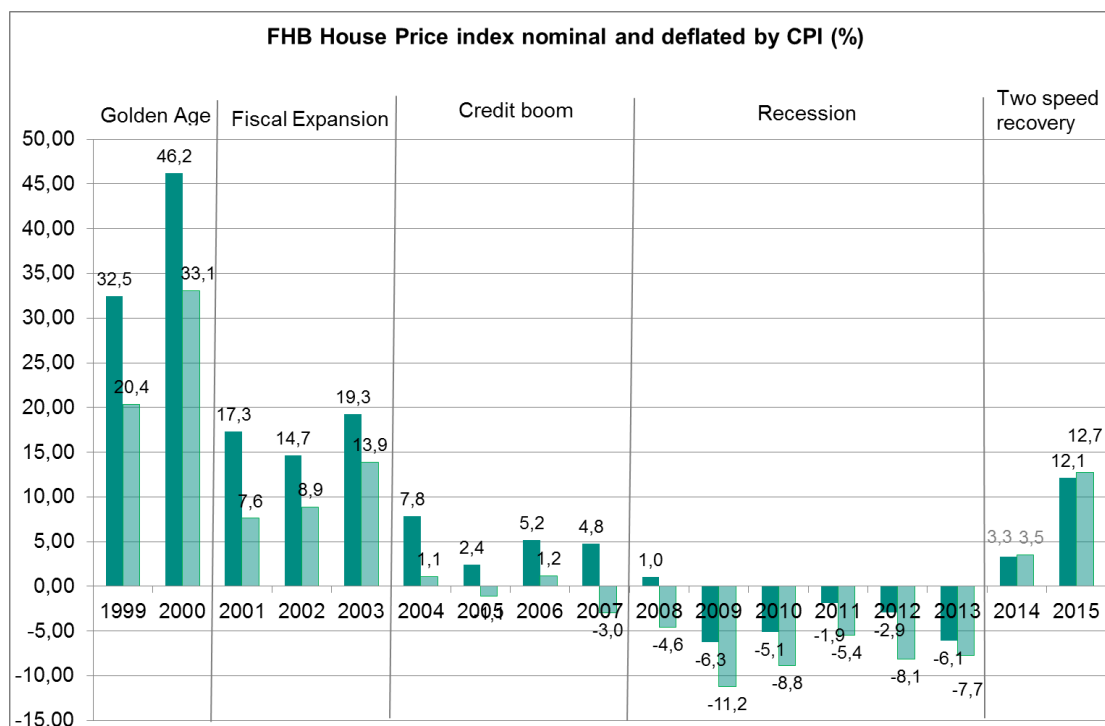


Figure 10. Annual changes and periodization of FHB House Price Index. (Source: *FHB Index*)

Our services adjacent to the FHB Index

The FHB House Price Index is published quarterly. Before its introduction, no other product of this kind was available in the Hungarian market. It is distinctive in terms of the measured time intervals and the quality of the underlying data, as well as its methodological foundations, which conform to international expectations. Since the introduction of the FHB Index in 2009, MNB (the Hungarian National Bank), RICS (The Royal Institute of Chartered Surveyors) EMF (European Mortgage Federation), Global Property Guide and the European Commission refer to it as a featured housing market indicator.

Updates to the FHB House Price Prognosis and the FHB Agricultural Land Price Index are published regularly. The methodology behind the model rests on three pillars:

- I. On the basis of international and local experience, we have identified relations between selected Hungarian macroeconomic indicators, money-market and credit market indices, transactional data of the housing market and housing prices. (We base our view of the development of the macroeconomic and financial environment primarily on the projections of the Hungarian National Bank.)
- II. The FHB Banking Group has been one of the major actors among Hungarian housing market financiers for over a decade. 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.
- III. With respect to the economic crisis, we do not disregard empirical facts gained from analyses of similar depressions that have affected real estate prices so far. We have, therefore, included the international experience obtained from similar crises in our model.

Our database, which covers the entire country and the methodological development of the FHB Index make FHB able to provide help to the financial sector to fulfill the collateral re-valuation obligations under Basel II (Government Decree No 196/2007 on the Management of Credit Risk and the Calculation of Credit Risk Capital Requirement). We are proud that our service has already been ordered by a number of Hungarian banks, subsidiaries of large international financial institutions. The banks will also need to comply with the strict regulations in the future, it is, therefore, useful to apply a procedure that conforms to international standards and can also be supported by documented methodology if required by authorities. For the implementation of the modern, internal valuation methodology, it is preferable to use a model that is based on transactional data and documented methodology whereby efficient and mass re-valuation becomes possible. By using this model, credit risk capital requirement can be reduced substantially, and excess capital can thus be freed. FHB Jelzálogbank Nyrt. has been using the real estate monitoring procedure – which also meets the requirements of the modern, internal valuation methodology – since 2008.

FHB also undertakes the preparation of unique research products meeting individual needs. In these, we offer local information on apartments and lots, 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

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

Zsolt Molnár
Deputy Chief Executive Officer
FHB Ingatlan Zrt. Ingatlan értékelési Igazgatóság
Telephone: +36(1)452-9208
Fax: +36(1)329-0986
Mobile: +36(30)748-3913
E-mail: molnar.zsolt@fhb.hu

dr. Gyula Nagy
FHB Index project leader
FHB Jelzálogbank Nyrt.
Telephone: +36(1)452-5930
Mobile: +36(30)964-6087
E-mail: nagy.gyula@fhb.hu

