

RE/MAX HOUSING MARKET REPORT – Q3 2022

Hungary

ECONOMIC INDICATORS / MACRO ECONOMIC ENVIRONMENT

Macroeconomic expectations have continued to worsen globally in recent months. The domestic macroeconomic outlook has deteriorated substantially, with the economy's very high energy demand playing a key role. Domestic energy production is low, so the country's economy requires significant imports to function, which are considered high by European standards. The war situation also had an impact on the third quarter, with inflation rising, the Hungarian Central Bank raising its base rate in an attempt to contain it, and wages starting to fall in real terms. According to the KSH, inflation continued to rise in the third quarter of 2022, reaching 20.1% by the end of September. The unemployment rate was 3.8% in September. Domestic GDP stands at 6.5%. The MNB raised the base rate to 13 percent at the end of September.

Economic and political developments continue to have a significant impact on the Forint. In the first quarter of the year, the average HUF/EUR exchange rate of the MNB was 364 HUF/EUR, while the average of the second quarter exchange rates reached 386 HUF/EUR. In the third quarter, the Forint weakened further, reaching a daily rate of around 420 HUF/EUR by the end of the period, according to MNB data.

HOUSING MARKET

The economic situation has a significant impact on the real estate market and thus on the residential property sector. The economic slowdown that started in the second quarter continued in the third quarter as well. The changes due to the increase in overheads are causing further uncertainty and delay for both buyers and sellers. In terms of prices and real estate turnover, these effects could have an impact on the fourth quarter of 2022 and 2023.

In the first half of the year, while demand and the number of transactions declined, house prices increased, but at a slower pace. In the second half of 2022, we expect these processes to ease. According to Hungarian Central Bank publications, the overvaluation of the housing market is still high, currently 18% above the equilibrium level. House prices are expected to continue to rise in nominal terms, but to slow significantly in real terms, i.e. relative to inflation.

The housing market is influenced by many more factors at the same time, namely:

- Rising inflation;
- Rising unemployment;
- The increase in interbank interest rates associated with an increase in the base rate (the average interest rate is currently 6-7% higher than this time last year);
- Steeply rising energy prices;

- Stalling supply chains, rising construction prices;
- Partial extension of the 5% housing tax credit, CSOK and Baby Loans, and the uncertainty that several forms of support may be discontinued in 2023 (village CSOK, home renovation support).

DEMAND / SUPPLY / VOLUME

There were approximately 28,000 transactions in Q3. This figure is below the volume of the previous quarter (35,000) and is also weaker than last year's figures for the same period (down 19%).

Comparing first-half transaction data with last year's first-half figures, the market is already showing signs of slowing down. Further moderation and rebalancing is expected in the second half of the year. One of the main drivers, alongside inflation and rising interest rates, is the energy market crisis in Europe.

Based on the experience of market experts and Portfolio's analysis, demand has fallen significantly across the country since the beginning of September, by 37 percent. However, the number of residential properties for sale on the market has started to increase, by an average of 12 percent compared to the previous months. The biggest turnaround is seen in Pest County, where agents are seeing an average 45 percent drop in demand and 18 percent increase in supply. Demand for detached houses has fallen everywhere, but particularly in the outer districts of the capital. Similar trends can be observed for building plots, for which demand has also fallen.

■ Average size

The most sought-after average apartment size in the third quarter of 2022, in both Buda and Pest, was typically between 40-60 sq.m.

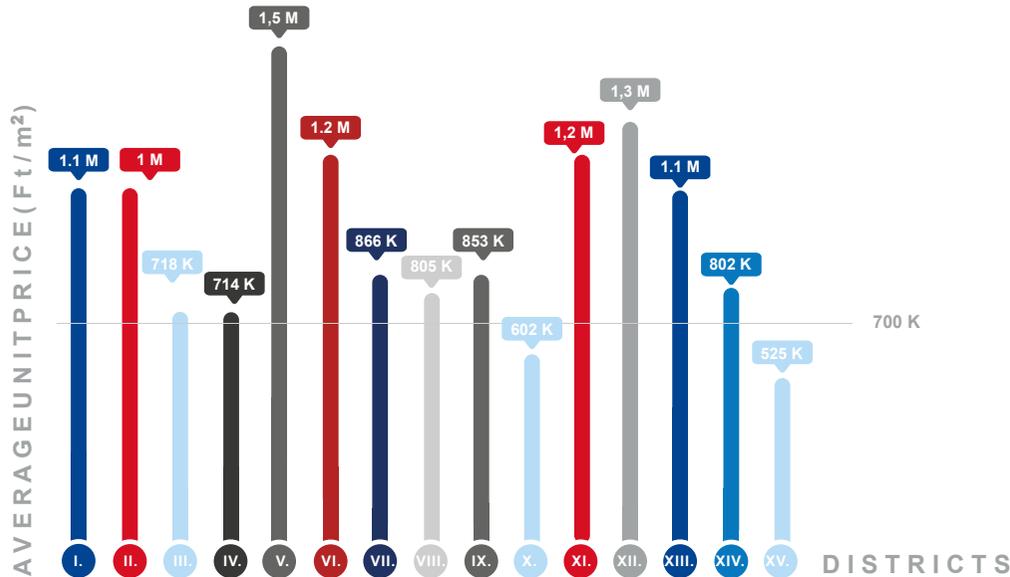
■ Average price

In the third quarter of 2022, the market continued to be characterised by rising prices. Based on the quarterly data, the majority of transactions, in the case of used residential property, were for properties sold at between 8-900,000 HUF/sq.m. The average price of properties sold in Buda reached 900,000 HUF/sq.m., while the average price in Pest was 850,000 HUF/sq.m. in the inner districts and 700,000 HUF/sq.m. in the outer districts.

The average price of new apartments in the capital is 1.2 million HUF/sq.m., with the most expensive being in the 1st district, where the price of new apartments is close to 3 million HUF/sq.m.

At the national level, the most significant increase in prices over the past quarter was for panel houses. In the countryside, the average price per square metre of a flat was 480,000 HUF/sq.m., while in Budapest it was 770,000 HUF/sq.m. in the third quarter.

The following chart shows the average price per square metre of properties sold by RE/MAX in Budapest in Q3 2022.



The time of sale



AVERAGE SALES TIME 3 MONTHS

Transactions concluded by RE/MAX, the average time to sale for residential properties was 4 months. Typically, sales of panel apartments are faster, at around 2.5 months, while for brick apartments it is 3-4 months.

The size of bargaining



DECREASING BARGAIN LEVEL 2-4%

The size of the bargain has undergone a major transformation since the COVID-19 outbreak. Whereas in 2010 the average bargaining level was as high as 8-10%, it has now fallen to 3-5%, and in some cases 2%.

RENTAL MARKET



AVERAGE RENTAL PRICES 4,000 – 5,500 HUF/sq.m.

The price increase observed in the second quarter continued in the third quarter of 2022. In the capital, the rent of brick apartments ranged between 125-350,000 HUF/sq.m, while the rent of panel apartments was between 130-290,000 HUF/sq.m. Market experts agree that rent increases will be essential to sustain new developments in the coming period. The average rent in the inner districts of Budapest is between 4.000-5.500 HUF/sq.m. according to the RE/MAX database.



YIELDS KB. 5,6 %

INVESTMENT

In the commercial property investment market, there is a clear shift between foreign and domestic investors. In recent months, there has been a significant shift towards the latter, with 74 percent of transactions this year involving domestic investors. Currently, one in three residential property transactions in Budapest and one in four nationally are investment transactions. As with rents, experts expect yields to rise in the Budapest housing market. A slight rise is expected in premium yields, which are currently at 5.6%.

EXPECTATIONS

In the last 2-3 years, the real estate market has been affected by several major impacts, both positive and negative. While the emergence of COVID brought a short-lived correction in volumes and prices, there is a high probability that we will reach the turning point of a nine-year upward property market cycle during 2022, says the Portfolio analysis. This was first reflected in a fall in the number of transactions. Analysts expect a 15-20% drop in turnover this year compared to last year, with no meaningful increase in 2023. This is underpinned by the fact that growth expectations for advanced economies in 2023 have essentially fallen to around zero, with the probability of a recession within a year increasing. In this context, RE/MAX predicts diverging movements in the housing market segments in the coming period. As a result of economic trends, the overall slowdown in the market will be different for different types of property. On the supply side, smaller properties and/or properties with renewable heating systems and panel flats are expected to come to the fore. On the demand side, buyers with cash or higher equity may be in a better position.



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