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Housing Wealth in Hungary: From Subsidised Stability to Inherited Tensions?

*Recent trends in the real estate market and its analysis – 2019 edition.
Narodowy Bank Polski Workshop, 2019.12.05.*

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www.andrassyuni.eu

University
of National
Excellence



- 1) Background: “Integrating residential property with private pensions in the EU”
- 2) Homeownership in Hungary – a snapshot
- 3) Incentives to invest in homeownership
- 4) Inherited Tensions?
- 5) Attempt of an outlook

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Background

Research Project for the EC



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- “Promoting the contribution of private savings to pension adequacy: Intergating residential property with private pensions in the EU” (European Union’s EaSi Grant Programme, agreement No. VS/2015/0218)
- fiscal incentives and other public policy options, which affect people’s decision to invest in private pensions and home ownership
- 2015-2018 → Pension systems, mortgage markets & housing markets

Background

Countries Covered



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	Germany	Hungary	Ireland	Italy	Nether-lands	United Kingdom	EU Median	Source
Population (million)	80,92	9,84	4,61	61,42	16,92	64,09	7,90	OECD
Population growth (% 2014-2050)	-10,87	-15,51	18,93	3,47	2,51	20,91	-0,06	OECD
Old age dependency ratio (%)	32,20	25,80	19,20	32,90	26,40	26,90	27,25	Eurostat
65+ (% of total population)	21,38	17,65	12,72	21,23	17,51	17,81	18,60	OECD
Net replacement rates on mandatory pension programs (%) (1)	50,00	89,60	42,20	79,70	95,70	38,30	63,70	OECD
Replacement rate of public pension in relation to wages (%)	37,50	58,70	34,70	69,50	90,50	21,60	55,80	OECD
Per capita private pension fund assets (EUR)	2.630	467	30.148	2.426	72.210	39.933	2.426	OECD
Owner occupation (% of households, latest)	52,5	89,1	69,9	73,2	67,0	64,8	74,5	Eurostat

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Source: Own compilation according to OECD and Eurostat databases.

Mortgage Market

Total outstanding residential loans (2018)



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Country	Value in EUR billion	Nominal House price Growth %	% of GDP	% of Household Disposable Income	per Capita in EUR
Germany	1,445,987	7,7	42,7	68,5	20,879
Hungary	13,6	18,2	10,3	19,6	1,687
Ireland	84,045	10,2	26,2	76	22,919
Italy	379,054	-0,6	21,6	32,2	7,480
Netherlands	714,367	9,0	92,4	187,6	51,785
UK	1,575,990	3,1	65,8	97,7	30,158
EU 28	7,251,189	6,3	45,7	77,2	17,404

Source: Case Study DE (in this volume, 29), data taken from Hypostat (2019).

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Mortgage Market



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CHART 15 | HOMEOWNERSHIP RATE WITH A MORTGAGE WITH BREAKDOWN ACCORDING TO INCOME STATUS IN 2017, PERCENT



Source: Eurostat

Similarities across the sample



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- Impact of the GFC
- Tightening of mortgage and credit market regulation
- countries using policies that actively stimulate the mortgage markets and countries relying on rather conservative policies
- „tight link“ between housing policy and the mortgage market

Key differences across the sample



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- Pensions
 - different systems
 - huge variety of taxation
 - variety of additional incentives

- Mortgage market
 - varying developments
 - *active or conservative* policies

- Housing market
 - different traditions, different measures, different social focus
 - similarities in taxation

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Housing Market *Overview*



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- Country s Population (2018): 9 772 556
 - Number of Households (2018): 4 136 841

 - Housing stock (2018): 4 455 491
 - dwellings with 1 room: 456 022
 - dwellings with 2 room: 1 683 966
 - dwellings with 3+ room: 2 315 503

Source: own compilation based on data of the Hungarian Staistical Authority

Housing Market

Types of housing tenures



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- Highest level of ownership in the EU
- 70,8% owner occupied, without outstanding mortgage or housing loan
- 18,4% Owner occupied, with mortgage or loan
- 3,4% Tenant — market price
- 7,5% Tenant — reduced price or free

GFC Hungarian: *„Foreign Currency-Crisis“*



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- Global financial crisis in 2008/2009: effect on high stock of foreign currency loans
- Growth of repayments by 30% to 40%, increase of loan payment/income ratio
- Increase on arrears on utilities; foreclosure proceedings
- 2009: option of paying reduced installments up to 2 years, repayment of deferred installments guaranteed by government; moratorium for foreclosures
- 2010: mortgage lending in foreign currency is prohibited

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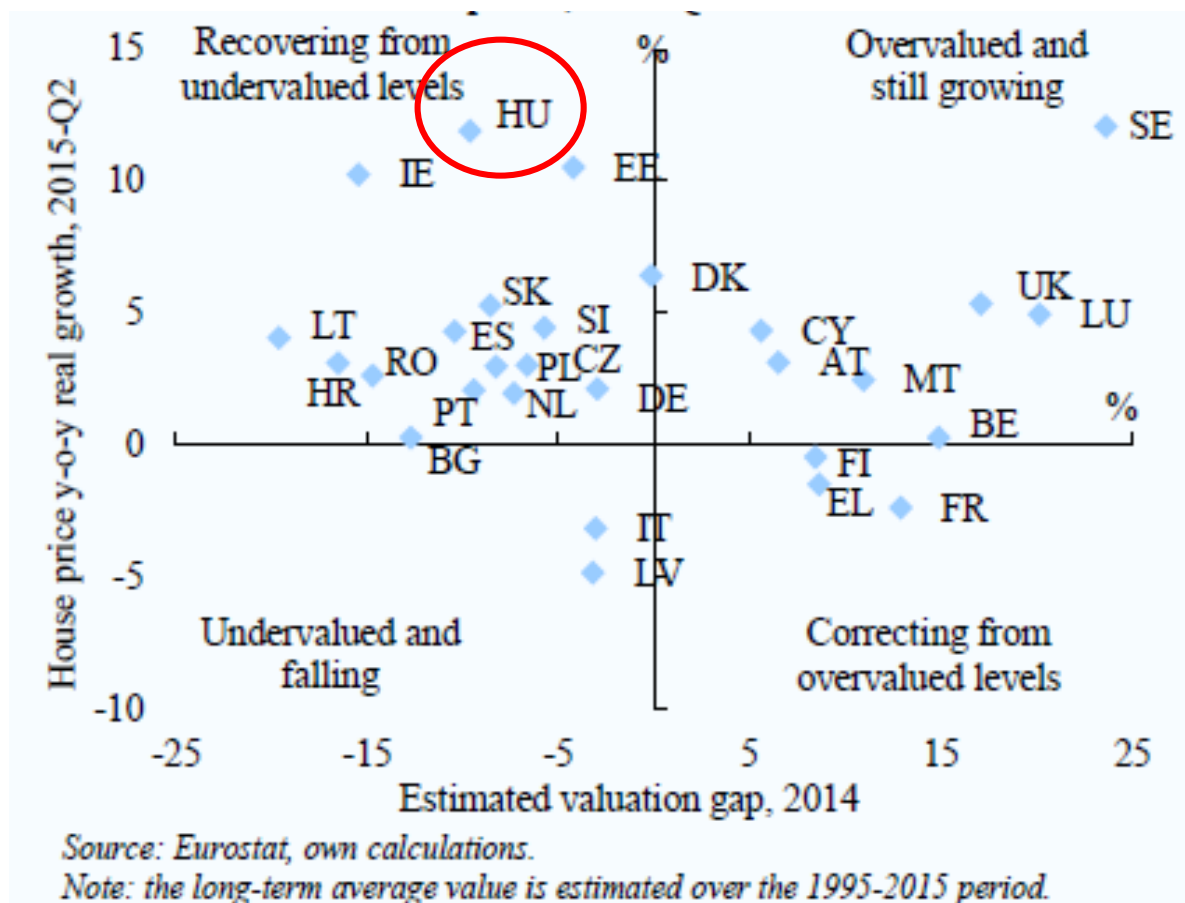
- 2010: „exchange rate cap scheme“
- „Hungarian National Asset Management Agency“: bought properties of borrowers indebted in foreign currency in the name of the Hungarian state
- December 2014: legally fixed maximum of 25 000 properties has been reached
- 2015: complete conversion of foreign currency mortgage loans into HUF

Housing Market

Impact of the GFC



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Source: Source: European Commission (2016, 57)

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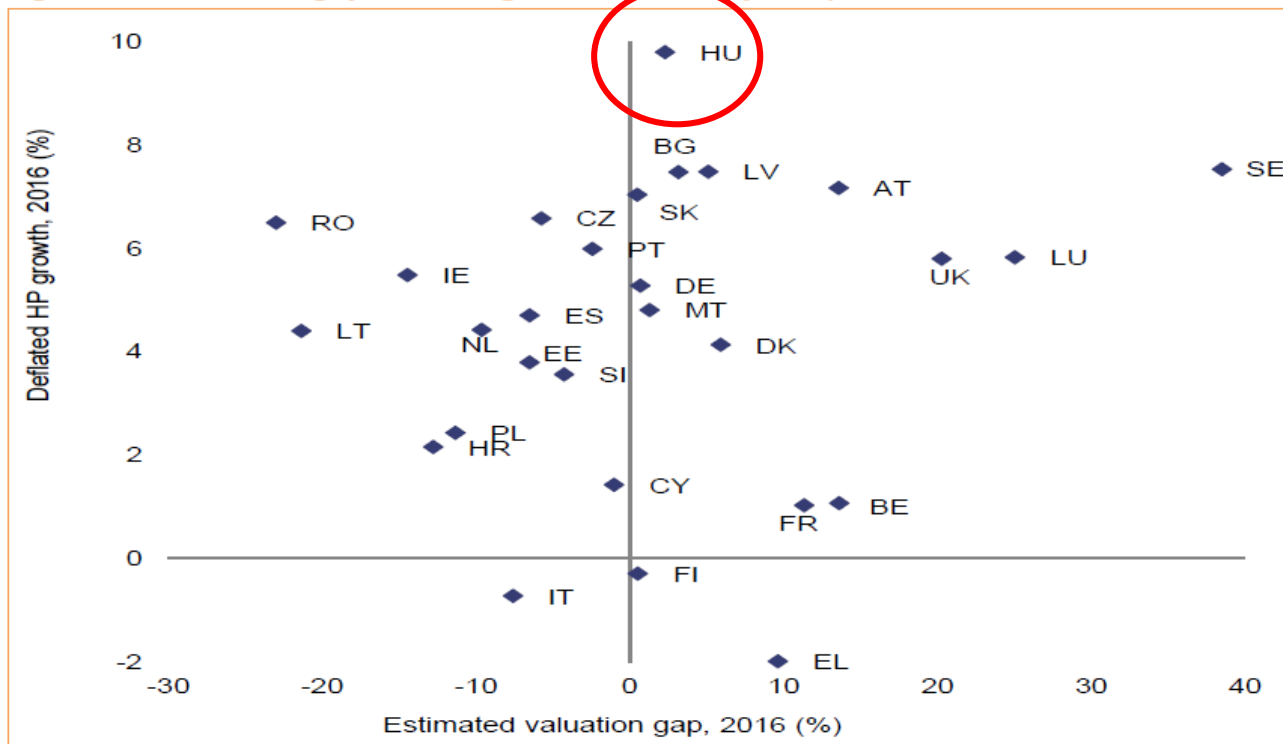
Housing Market

Impact of the GFC



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Figure 4 – Valuation gap and real growth in house prices, 2016



Source: European Commission, ECB, OECD, BIS, European Commission analysis.

Note: The valuation gap was calculated based on the price-to-rent ratio, the price-to-income ratio and a statistical model for fundamental drivers of house prices.

Source: Source: European Commission

Housing Market



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- Large housing stock worthy of improvement
 - Housing shortage mainly in the capital
 - Significant differences capital vs. rural areas / other cities
 - residential property is disproportionately important when it comes to wealth planning

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Housing Market *Incentives*



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- Most important incentives for housing market
 - „Home savings“
 - Housing construction subsidy („Family Housing Allowance Program“)
 - Interest rate subsidy



Financial Incentives

„Home savings“ (lakástakarék)

- 1997-2018
- *one* saving contract/tax number: purpose to invest the saved money exclusively in acquiring a new home or renovating or improving an existing home.
- monthly payments are supported by by 30%, capped at a maximum of 72.000 HUF / year
- Interest: free from capital gains tax
- Savings allowed to be used to repay mortgage credits



Financial Incentives

State aid for loans (*otthonteremtési kamattámogatás*)

- Interest rate subsidy of 60% (<2 children) to 70% (>2 children) for acquiring new property, 50% for used property
- Support for loans for buying new dwellings, renovating or building for a period of 5 years
- new property: capped at 15 million HUF, at 10 million for used property
- value of *new* property must not exceed 30 million HUF, *used* property must not exceed 20 million HUF
- modernization costs must not exceed 15 million HUF.
- A minimum of 70% of the costs have to be formally documented by VAT invoices.



Financial Incentives

„Family Housing Allowance Program“ (*Családi otthonteremtési kedvezmény*)

- since 2015
- policy measure to boost construction industry and support families with children
- subsidy between 600.000 and 10.000.000 HUF granted, has *not to be repaid*
- for acquiring and enlarging homes
- amount depends from squaremeters (capped) energy class and number of children
- Boom of the construction industry



Immediate Effects

- Continuous growth of the residential housing market since 2013
- Between 2013 and 2018 approved loans increased more than fivefold
- middle class as most important target group
- regionally uneven distribution
- „Subsidised stability“ → existing structure is temporally cemented

Agenda



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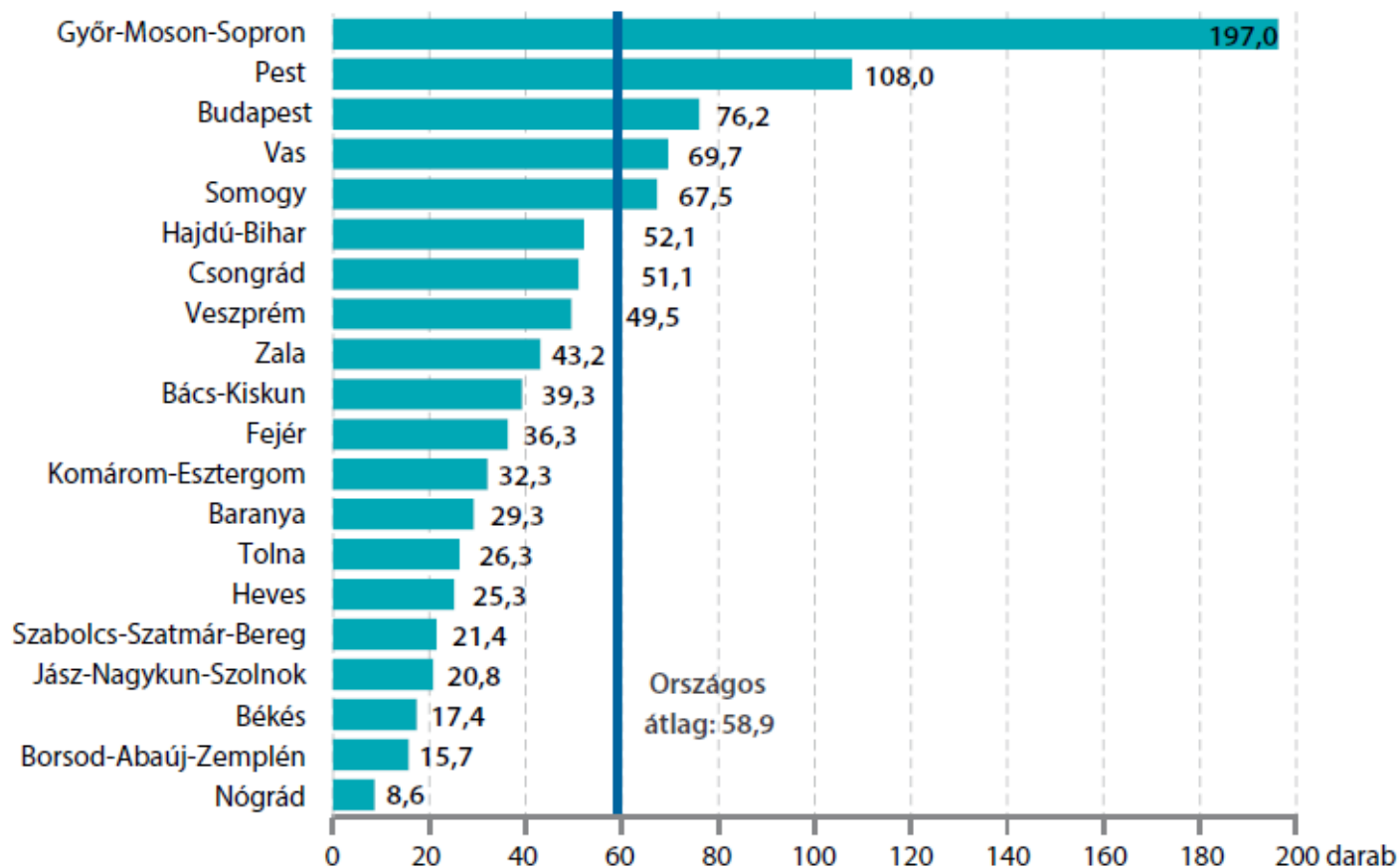
Inherited Tensions

Regional disparities



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Dwellings built between 2014 and 2018 / 10.000 inhabitants / district



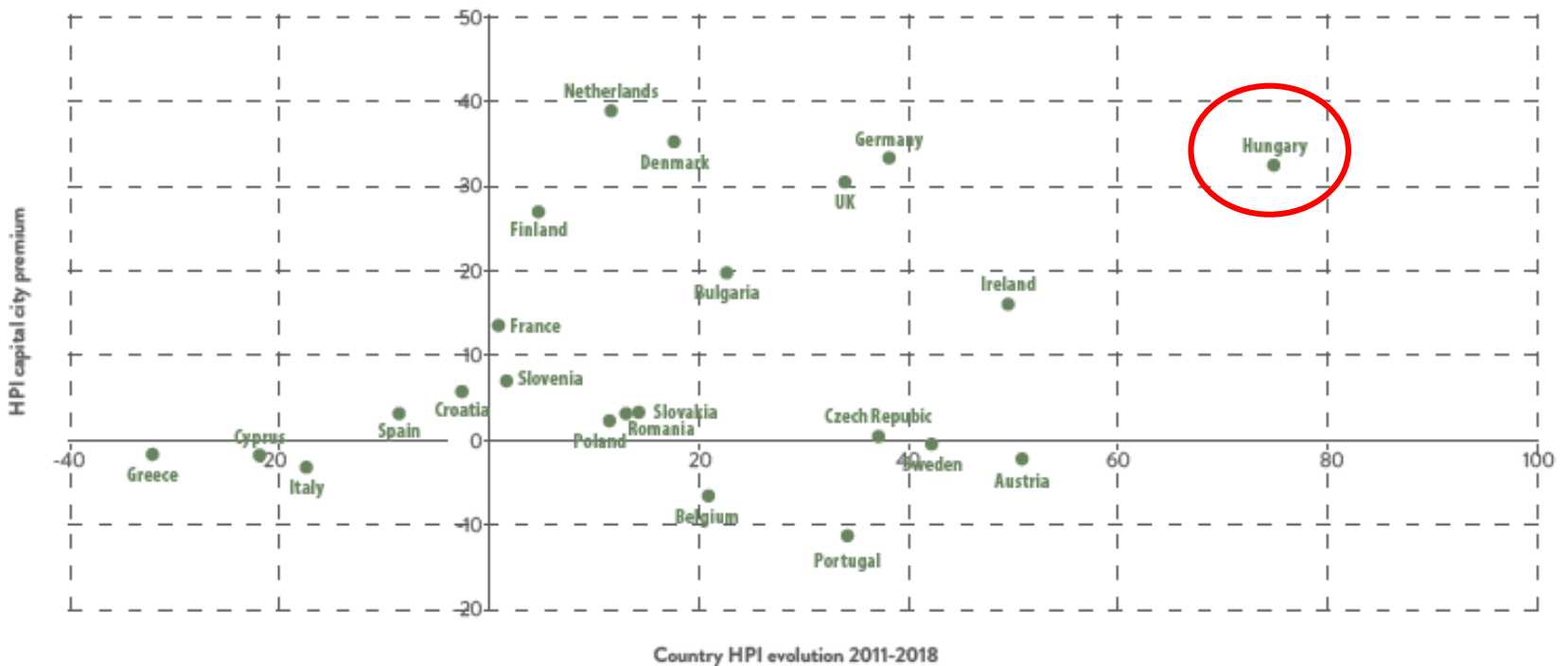
Inherited Tensions

Regional disparities



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CHART 6 | PREMIUM CAPITAL HPI WITH RESPECT TO THE HOUSE PRICE INDEX OF THE COUNTRY



Source: European Mortgage Federation

Source: Hypostat 2019, 33

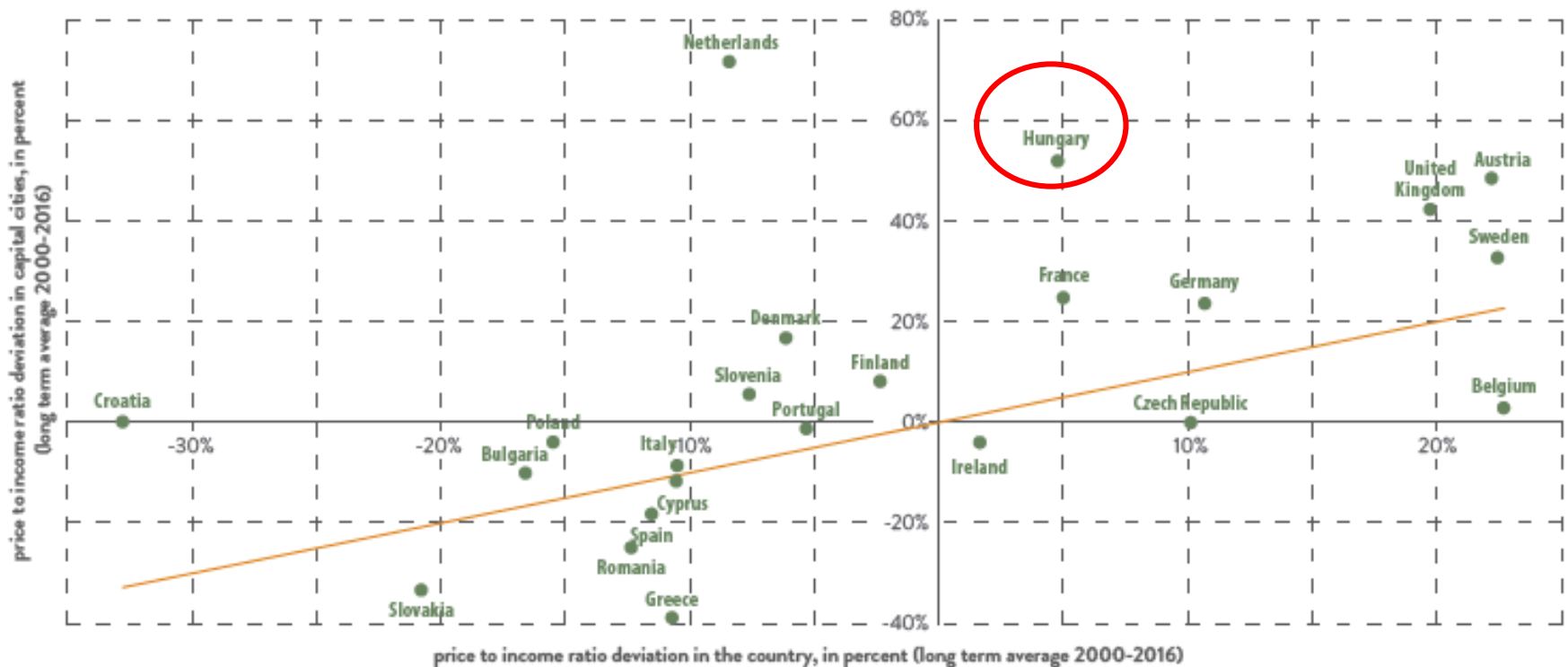
Inherited Tensions

Regional disparities



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CHART 10 | AFFORDABILITY EVOLUTION COMPARISON BETWEEN CAPITAL AND RESPECTIVE COUNTRY, 2016



Source: author's calculation - European Monitoring Board

Source: Hypostat 2019, 35

Inherited Tensions

Social disparities



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Estimated Household Assets in Hungary 2015

Asset	1000 Billion HUF
Residential property	47,9
Other real estate	4,7
Car	2
Other moveable assets	0,5
Land ownership	6,5
Financial assets (not company assets)	8,6
Company assets	1,4

A red bracket groups the 'Residential property' (47,9) and 'Other real estate' (4,7) rows, with a red '73%' label next to it, indicating that these two categories together account for 73% of the total assets shown.

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Inherited Tensions

Social disparities



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Asset Shares According to Social Strata in Hungary 2015

social strata	Per cent of households
Penniless (under 7 Million HUF)	50%
Middle class (between 7 and 70 Million HUF)	45%
Wealthy (more than 70 Million HUF)	5%
Within this group: 70-150 Million HUF	4,4%
150-300 Million HUF	0,3%
300-3000 Million HUF	0,3%
over 30000 Million HUF	150-200 households

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Source: Kolósi/Fábián 2016, 103

Inherited Tensions

Social disparities



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Average Asset Value According to Social Strata in Hungary 2015
(in million HUF)

Assets	penniless	Middle class	wealthy
Residential property	4,9	16,5	35,0
Other real estate	0,1	0,7	34,1
financial	1,2	2,1	31,9
Other moveable assets	0,0	0,1	4,3
car	0,2	0,7	3,2
Company assets	0,0	0,1	24,5
Total	6,4	20,3	133,0

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Source: Kolósi/Fábián 2016, 107

Inherited Tensions

Demographic Challenge



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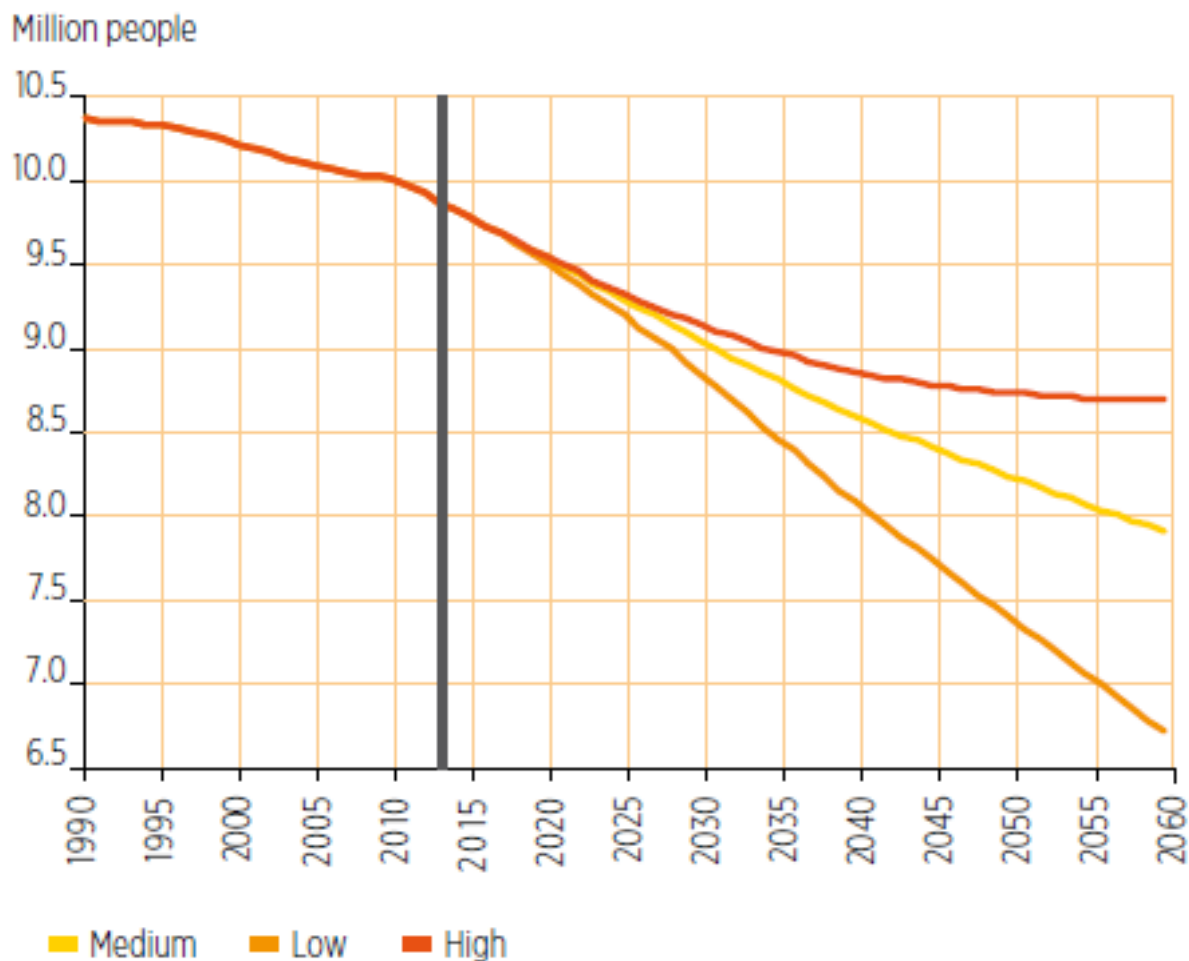
- Low fertility, high mortality
- Negative international migration
- Insufficient impact of recent family policy measures
- population will decline by about two million people by 2060

Inherited Tensions

Demographic Challenge



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Source: Földházi 2015, 214

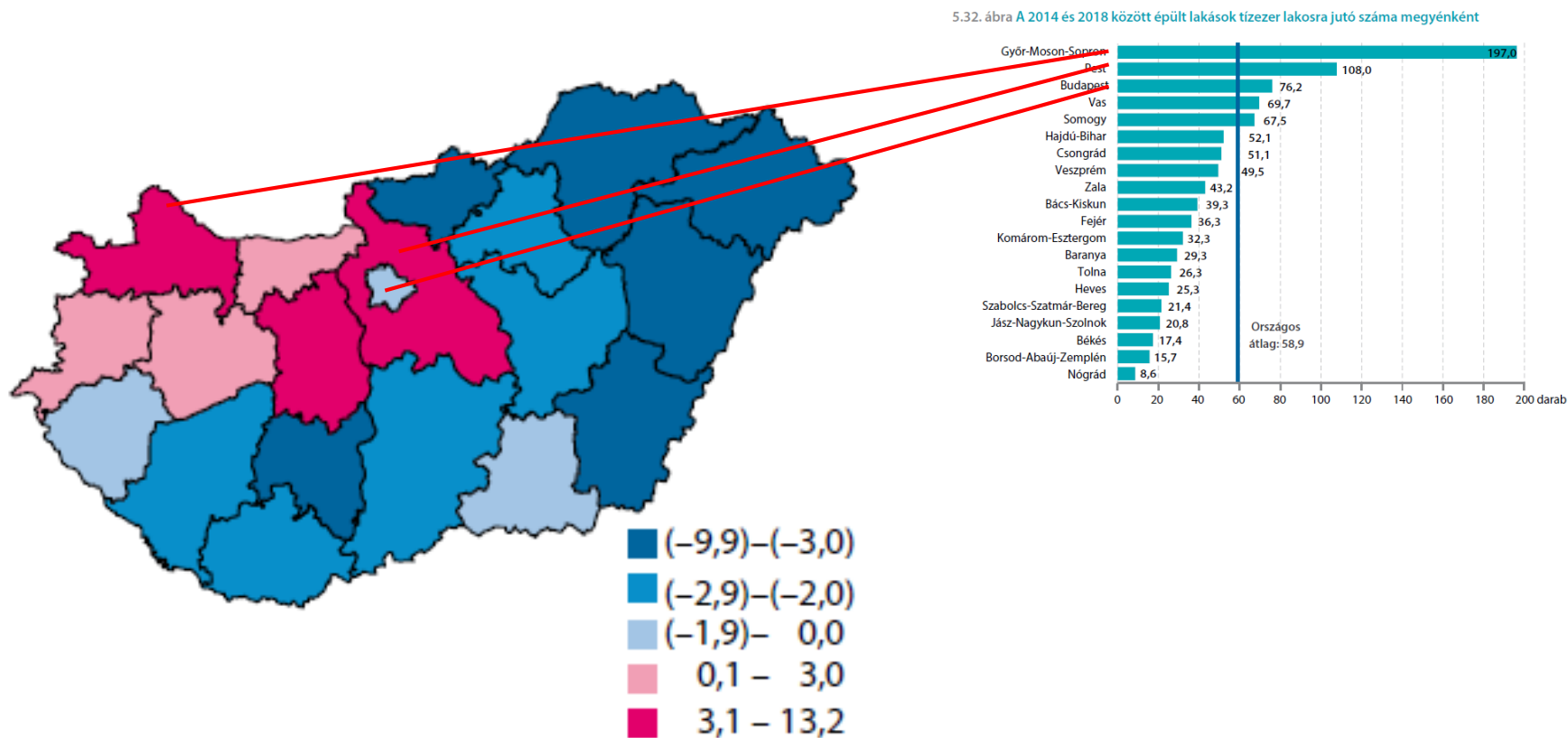
Inherited Tensions

Demographic Challenge



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migration balance in Hungarian regions / 1000 inhabitants 2018



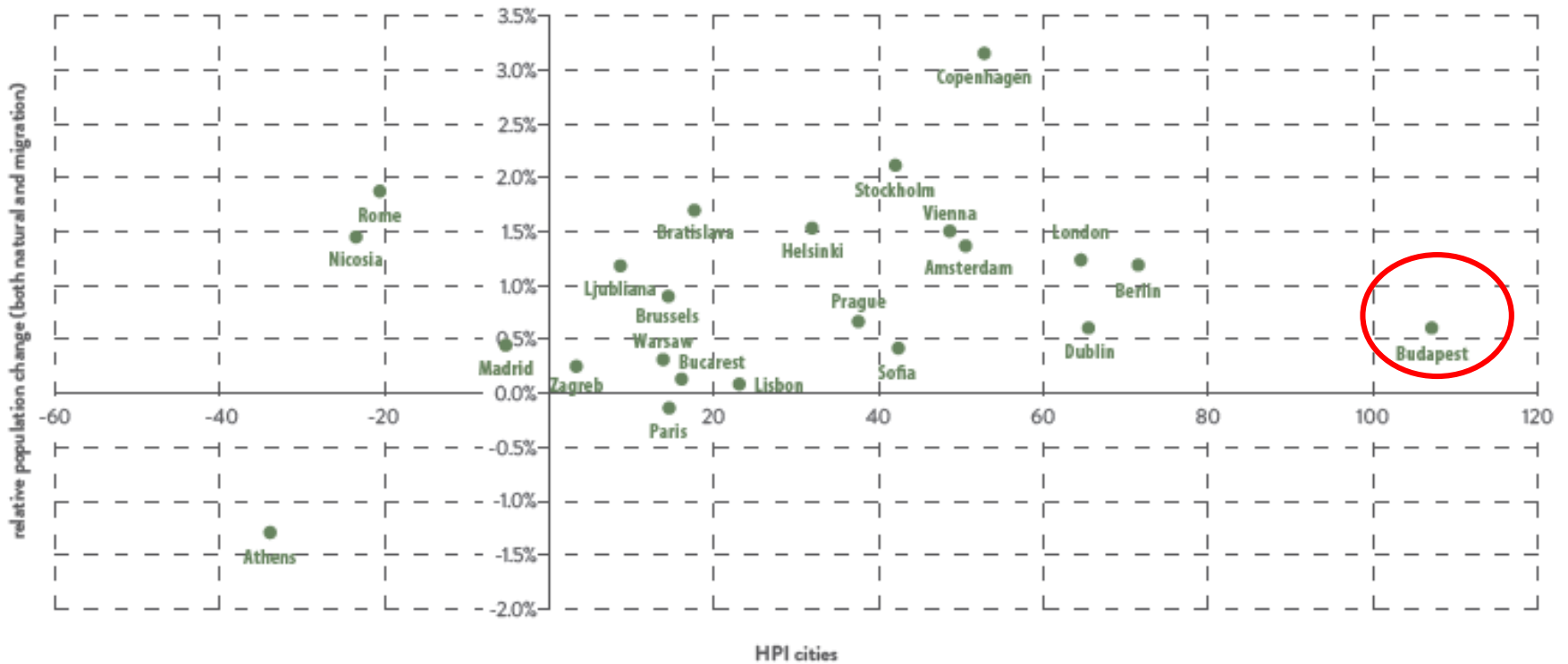
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Demographic Challenge



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CHART 8 | CAPITAL HOUSE PRICE INDICES COMPARED TO DEMOGRAPHIC EVOLUTION 2011-2018



Source: author's calculation, European Mortgage Federation

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From subsidised stability To inherited tensions



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- Gradually less families own gradually more of the housing stock
- More residential units will (have to) be rented out by wealthy families
- Labour migration as an important factor regarding the profitability of the rental market
- Employment effects of digitalization
- prosperity related migration may increase the pressure for social housing
- ownershiop-related tensions expectable



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Thank you for your attention!

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