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Abstract

The purpose of this paper is to give an instructive overview regarding the post-crisis development of the Hungarian residential property market and to ask if the policy and development are sustainable. It provides a descriptive study based on data provided by the Hungarian Central Statistical Office and the Hungarian National Bank. The paper argues that there are shifts in the motives for investing in residential property and in the relevant group of actors. The thin layer of the wealthy invested and benefited disproportionally and to the detriment of the countryside. The developments lead to a further erosion of the thin middle class and more pronounced regional disparities. The paper shows that the structure of incentives of the last decade did not foster sustainable development. It provides numerous implications regarding a necessary policy change if regional and social disparities should be prevented from growing further.

Keywords: housing policy, sustainability, residential property, housing wealth, financial crisis

JEL classification indices: D3, H53, R31, R38

1. Introduction

The last global financial crisis hit Hungary's housing market hard. For the government, this presented a good opportunity to act as an advocate for citizens' interests and above all, to present itself clearly. All in all, the last decade has brought about a significant macroeconomic recovery. Nevertheless, the residential property market remained high on the political agenda, with family policy support measures currently being implemented primarily here. The macroeconomic environment indeed seemed to justify the perception of room for generosity. But all historical experience teaches that "before the crisis" also comes "after the crisis". This paper asks the question whether developments in the last decade have contributed to making the residential property market crisis-proof – or not.

To answer this question, the paper proceeds in three steps. Part two introduces the most important market characteristics and processes: 2.1. offers a presentation of the main characteristics of the market in an international context. Section 2.2 then turns to the process perspective and describes the main general trends following the global financial crisis, taking into account European developments. Section 2.3 focuses on the national state as an actor. Part three focuses on private actors: Section 3.1 describes investment behaviour on the basis of available statistical data and checks the plausibility of investment motives. On this basis, section 3.2 attempts to make changes among different groups of actors visible. Part four then establishes a regional reference to what is presented: 4.1 focuses on investment activity and the striking asymmetry between the capital and the countryside. Section 4.2 considers social factors that seem to reinforce the observed trends.

The analysis focuses on the period between the global financial crisis of 2008 and 2020. On the one hand, the developments within this period are already sufficiently meaningful. On the other hand, Hungary is undoubtedly facing its next crisis, specifically the consequences of the measures against Covid-19, as can already be seen (see Fellner *et al.* 2020, p. 7). The present paper cannot go into the current crisis, which seems far from over, but where current developments confirm the assumptions, it partly uses recent data material.

2. Characteristic constellations and processes

In order to be able to adequately assess the developments on the market under consideration, the following two sections provide a brief overview of the most important characteristics. Section 2.1 examines the particularly striking market structure characteristics and places them in an international context. Section 2.2 then turns to the process perspective and describes the most important general trends following the global financial crisis, taking European developments into account. Section 2.3 focuses on the national state as an actor.

2.1 Market structure characteristics

The following section deals with the key characteristics of the Hungarian housing market. It not only looks at the distribution of property, but also takes into account key behavioural and social factors.

A distinctive feature of the Hungarian housing market in international comparison is the high share of residential property at 91.7% (Eurostat 2020a).[1] Only Croatia, Lithuania and Slovakia show similar ratios in the EU (Eurostat 2020a, but here the ratios have only been worked through to 2018). Against the background of the country's history of transformation, which is crucial for the housing market and which cannot be discussed here (see Ladányi 1995), and on the basis of the experience of recent years, it can be assumed that in general it will remain at such an unusually high level. Several observations support this assumption. We would like to highlight three of them here.

The first observation relates to the savings or investment behaviour of individuals. For Hungary, Csizmady *et al.* (2017) diagnose living in one's own four walls as the still-dominant investment strategy (Csizmady *et al.* 2017, p. 265) and describe the "Hungarian housing system as a 'super-homeownership' model" (ibid, 250). For the vast majority of Hungarians, no investment is as important as home ownership, which, as Doling/Elsinga and (2013) put it, is perceived as the "ultimate precautionary fund" (p. 142). Nothing indicates that this finding will change in the foreseeable future.

The second observation is that governments interested in majorities tend to respond to this dominant need through the appropriate policy. Measures of economic and family policies of the – grosso modo – last two decades confirm this assumption very clearly. These are discussed in more detail in section 2.3.

The third observation is the intergenerational importance of home ownership. Home ownership is held within families, even if this involves personal sacrifice.[2] It is not possible to go into the concrete sociological or socio-psychological context of these facts in more detail here. Apart from these, however, we also assume that the existing structure will remain stable across generations because residential property is exempt from inheritance tax (NTCA 2016). The possibility of tax-free transfers will be a sufficient motive for keeping residential property in the same families. This "super-homeownership model" makes the Hungarian market quite striking in international comparison. Table 1 gives a brief overview regarding some key figures.

[1] There are different indications in this respect. Nagy (2019) quotes an ownership rate of 86% for the year 2018. Either way, the ownership rate remains very high.

[2] For those unfamiliar with the Hungarian situation, the importance of home ownership across the generations is sometimes even astounding. At this point, reference is made to the results of empirical studies, see IFF (2018), p. 126.

Table 1: Key Figures

Category	Hungary	EU 27 average
Population (million)	9.8	9.1
Owner occupation rate in %	91.7	70
Housing Credit in % to GDP	7.7	42,9
Housing cost overburden rate (total population)	9.6	9.6

Source: Own compilation based on the sources of Eurostat (2020b) (row 1), Eurostat (2020a) (row 2), Hungarian national Bank (2020) (row 3), Eurostat (2020c) (row 4)

To make the picture a little clearer, it should be noted that the housing cost overburden rate for owner-occupied housing with outstanding mortgage or loan is 8.3% – more than twice the European average in this category, 4.0% (Eurostat 2020c). It is also 5.9% for owner-occupied housing without mortgage or loan (Eurostat 2020c), which is still 1.9% higher than the European average. Within Europe, however, there are few housing markets with a similar overall constellation or development pattern. As far as the intergenerational importance of home ownership is concerned, parallels can be drawn with the situation in Italy (see e.g. Murro and Palmisano 2018, p. 164). The other side of the coin is the weakly developed rental market even within the third decade after the change of system (see Hegedűs/Horváth 2017).

Even if comparisons with other housing markets are generally difficult or unhelpful, there is at least one common point of reference. This is, not surprisingly, the impact of the global financial crisis of 2008, which left a significant mark on all housing markets, first in the form of a slump via the credit market and the sudden destabilisation of employment and income. Then a common feature emerges with regard to the subsequent recovery processes, which admittedly have different characteristics. The Hungarian manifestation of the global financial crisis had a particularly dramatic element due to the high indebtedness of private households in foreign currency loans (see e.g. Kovács 2013, Pitz 2012; Buszko and Krupa 2015). The immediate or short-term consequences cannot be discussed in detail here. Nor does the phenomenon of foreign currency loans provide much of an explanation for post-crisis developments. Only the important role of state intervention, which goes beyond the problem of foreign currency loans, needs mention. This will be discussed in section 2.3. In fact, the instrument of foreign currency credit has indeed disappeared from the Hungarian market.

Every crisis comes before the crisis. But every crisis also offers opportunities. The post-crisis history documents the extent to which these can be used. A good decade after the crisis may allot enough time to form first judgements and to point out success, risks and problems. This should then provide indications of the extent to which people are prepared for the next crisis. Let us take a closer look below at the characteristics of the recovery process.

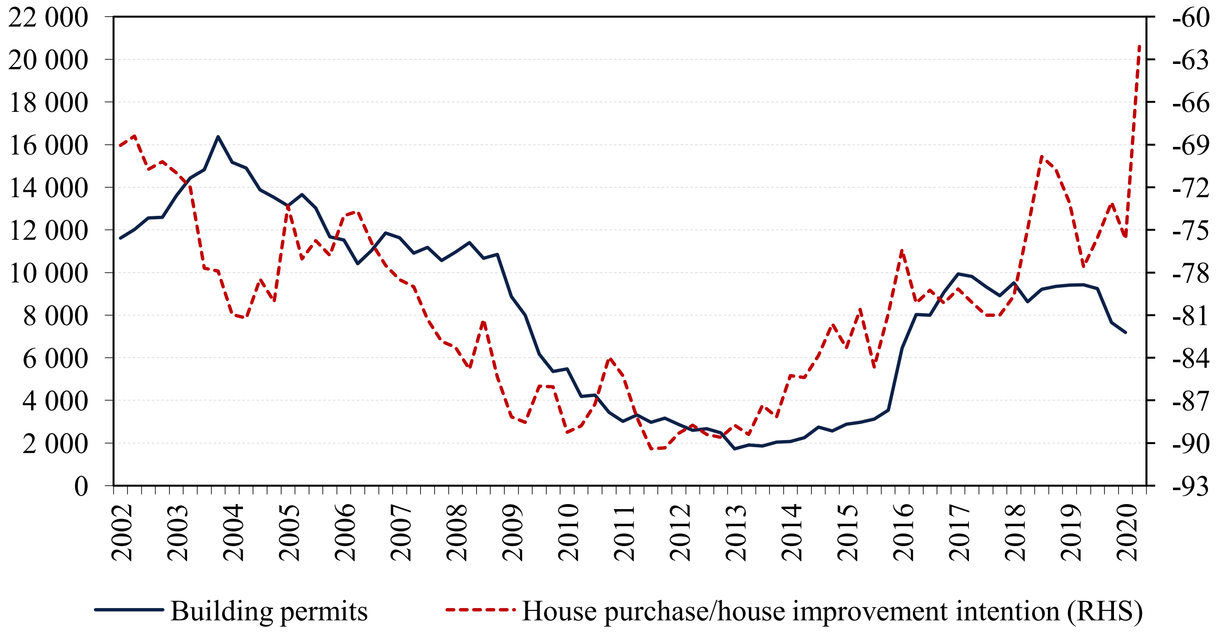
2.2 Trends in the European context

The following section gives an overview of the main developments in Hungary following the global financial crisis. Where it serves to illustrate the relevant events, it also refers in part to developments during the decade before the crisis. The presentation of the specific nature of the trends shown is also supplemented, where it seems appropriate, by references to the European context.

If we look at the first step of the process using the aggregate figures at the national level prepared by the Hungarian National Bank (see Fellner *et al.* 2019), it is already noticeable that, unlike in other European countries, the recovery process is taking quite long. Even before the impact of the financial crisis, the Hungarian housing market had experienced a boom. However, while housing purchases and planned investments in the improvement and/or expansion of existing housing units began to decline after 2006, building permits collapsed dramatically in 2008 in the wake of the global financial crisis. Both – investments in improvement and expansion as well as new building permits – show an initially slow recovery trend only from 2013 onwards and then a slowing trend from 2014 onwards, which initially stagnates with regard to the number of building permits granted from 2017 onwards, only to level off at the newly reached level by 2019. The immediate pre-crisis level was no longer reached.

Considered as a share of the total housing stock, building permits in Hungary exceeded an average of barely 1% between 2000 and 2007 and this did not change to a large extent later. In 2018, the corresponding figure was even slightly lower. Both values are close to the European average (Bertalot *et al.* 2019, p. 36). Purchases of used housing units and improvement projects also follow a similar pattern to building permits around 2016, but then rise to heights in 2018 that had not been reached since 2002, only to fall back a little in 2019. At the national level, a whole range of the usual indicators – such as handovers of completed housing units, sector-specific employment trends or price developments (Fellner *et al.* 2019, p. 9) – reflect this slow but clear recovery trend. This recovery trend then accelerates significantly around 2015. Figure 1 compares the number of building permits granted with the intention to purchase or improve.

Figure 1: Changes in building permits and households' motivations for purchases/upgrades



Source: Hungarian National Bank (2019).

The figure clearly reflects the obvious assumption that the building permits issued are, with some delay, in line with the intention to buy or renovate. It is noticeable that a downward trend in building permits after 2017 is beginning, although intentions are increasing by leaps and bounds.

This initially slow, but then accelerating recovery of the housing market can be attributed, among other things, to general recovery trends in the Hungarian economy after the global financial crisis. These can be seen – aggregated for the whole of Hungary – in several key figures. The positive development of GDP, a similar development of the labour market, but also growing real incomes and increasing net assets of Hungarians should be mentioned (see also Nagy 2019, p. 76). One cannot avoid the impression that by no coincidence does the Housing Market Report of the Hungarian National Bank (Fellner *et al.* 2019, p. 9) place these general recovery tendencies at the very beginning of its description of the situation. The low interest rate environment that has persisted since the crisis is another factor in the market's recovery. This has apparently led to an increase in loans being taken out for the purchase or renovation/expansion of residential units with the aim of owner-occupation (REFERENCE). This situation is particularly relevant for the housing market, as in some cases loan interest rates were subsidised specifically for the purchase of residential property. The following section is devoted to the activities of the government.

2.3 Policy measures

In addition to the general recovery trends described in the previous section, government policies affecting the housing market have probably had a decisive influence on some characteristics of the recovery process. This paragraph deals with these in particular.

In order to adequately understand the economic policy measures taken, it is necessary to take the global financial crisis as a starting point again. The housing sector was certainly hit particularly hard by this crisis. Its most striking feature in international comparison was the extent of household debt in foreign currency loans, mainly Swiss francs (see Kovács 2013, Pitz 2012). This situation had a political significance in Hungary that should not be underestimated. Considering the generally great importance of home ownership as described above, the crisis had to become a traumatic experience for large parts of the population. The government was not only obliged to help, but also had the opportunity to make a public performance as a saviour (see, e.g. Hungarian Government 2012). It seems only logical that the corresponding policy in this area was relatively generous. Home ownership proved a politically excellent medium to use instruments of industrial or family policy across the board and to put them in the media spotlight. In the following, let us look at some of the factors that are essential here, although they do interact with each other.

The importance of the low interest rate environment since the crisis has already been mentioned. Not only have interest rates for housing loans been subsidised as part of the family policy-based support measures, but the Hungarian government had also been gradually relaxing the conditions for property-related borrowing since 2010 until 2014 (Fellner *et al.* 2019). The Hungarian National Bank supports long-term housing loans with fixed interest rates through several instruments (Nagy 2019, p. 77), and in 2016 the VAT on real estate transactions was reduced from 27% to 5% (Nagy 2019, 76; Fellner *et al.* 2020, p. 17). This combination is certainly one of the main reasons for the observable acceleration of the recovery trend from the middle of the decade. Overall, this led to a steady increase in the volume of housing loans, which returned to pre-crisis levels in 2018 (Nagy 2019, p. 76).

In addition to these measures in the credit market, the Hungarian government created a whole set of policy measures called “CSOK” (a Hungarian acronym for *Family Housing Allowance Program*) in the aftermath of the crisis to stimulate the purchase or extension or renovation of owner-occupied housing. As the title suggests, the programme is aimed primarily at families or couples who want to start a family. Childbirth, pregnancy or even just aspired pregnancies establish entitlements to lump-sum subsidies and credit subsidies for home ownership.[3]

This had a wealth of complex effects on the development of house prices and had a positive impact on the volume of lending (see Banai *et al.* 2019), but also had (certainly not unintended) side effects, especially in the construction industry. The concrete effects of the programme are assessed differently, with a unanimous view to the impact of a price increase on land prices (Banai *et al.* 2019, p. 2). If one relates the volume of support provided by the support

[3] Family or family planning and home ownership provide the relevant reference points. However, this is not a one-size-fits-all format, but there are differentiations with regard to e.g. the age of the persons or the region. The funding formats have also undergone many modifications over the last two legislative periods. All in all, the possible target group and the volume was successively extended.

programmes to the total expenditure on the acquisition of residential property and observes its development between 2014 and 2018, a positive correlation seems obvious (see Banai *et al.* 2019, p. 6). Indeed, the development was very dynamic after 2014 at the latest, with 23% more construction projects completed in 2018 than in the year before (Nagy 2019, p. 76). The increasingly scarce labour force in the construction industry (Fellner *et al.* 2020, p. 17; idem 2019, p. 11) can then probably be seen as a factor for rising property prices again.

For the Hungarian government of the post-crisis decade, the housing market certainly played a central role. First it was about firefighting, then it was more of a long-term policy. The decisive factor in the design of the chosen instruments is their attachment to family or family planning on the one hand. On the other hand, lump sums or subsidised loans can only be called upon if the candidates already have a property and/or sufficient capital. Accordingly, families with below-average income and/or assets are not among the addressees (has Hegedüs already published his contribution???) This connection will be dealt with in section 4.2.

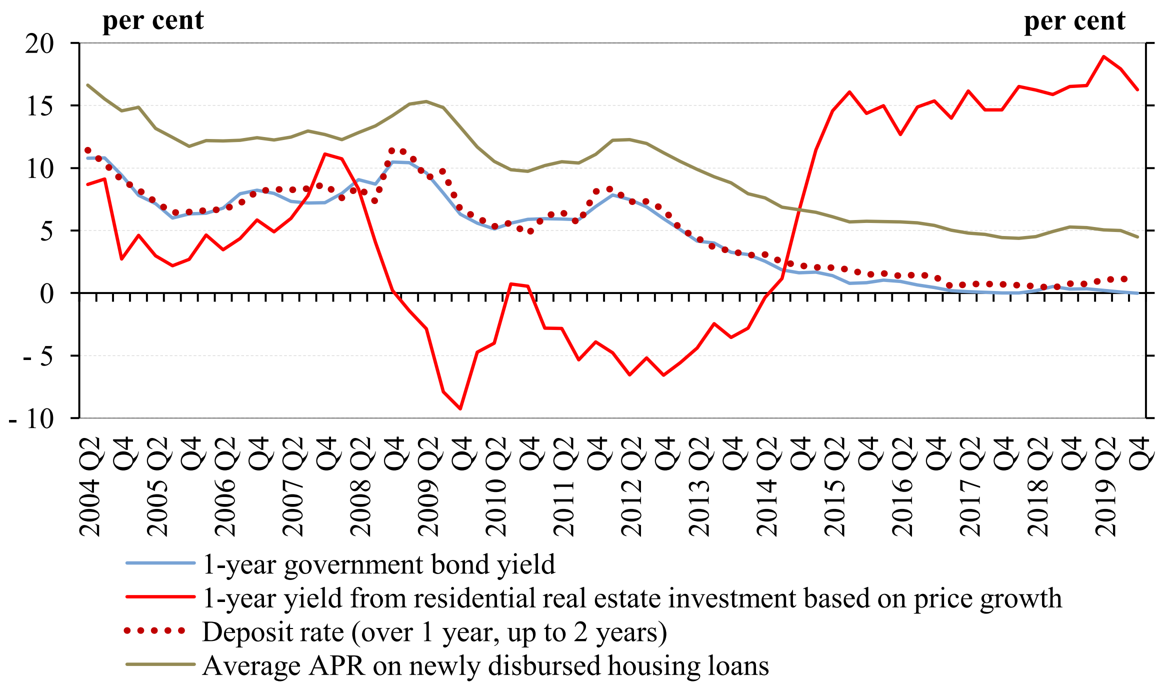
3. The perspective of private actors

The previous sections have dealt with general trends and government behaviour. The following sections focus on the level of private actors. Section 3.1 describes investment behaviour on the basis of the available statistical data and checks the plausibility of investment motives. On this basis, section 3.2 attempts to make changes visible among different groups of actors.

3.1 Investment behaviour and motives

The following paragraph focuses on the level of private market players and their motives. It seems plausible that the above-mentioned family policy measures – admittedly in the context of the macro-economically favourable development, the low interest rate and finally the reduction of VAT for real estate transactions – led to an increase in the volume of real estate related transactions carried out for family reasons. Moreover, the low interest rate environment can also be seen as one of the reasons why people invested in real estate as a form of investment even without any family ties, only to benefit again from the development of real estate prices. So here one thing leads to another. This phenomenon can of course be observed elsewhere in the world (see e.g. Adkins *et al.* 2019), but it seems particularly pronounced in Hungary. If a shrinking of the investment volume is initially observed between 2009 and 2013, gross investment in housing would grow by an average of 12.4% annually from 2014, with striking peaks in 2015 and 2017 (Bertalot *et al.* 2019, p. 131). That this investment strategy paid off when sold in time compared to other alternatives is shown in Figure 2, which relates the returns on savings deposits, government bonds and the average APR on newly disbursed housing loans to the one-year yield from residential real estate investment based on price growth.

Figure 2: Changes in the yield premium realisable on home purchases through value appreciation, and in deposit yields



Source: Hungarian National Bank (2019).

So price developments should prove investors right. For the recipients of family-oriented subsidies, the dream of owning their own home became increasingly expensive.[4] The nominal house price index by Bertalot *et al.* (2019, p. 134) shows that the level of 2007 was exceeded again in 2016 and is 54.1% higher in 2018. This is striking, because in fact no other European country saw house prices grow to this extent (ibid., p. 138) – by 18% in 2018 alone. This development was apparently further boosted by the aforementioned reduction in VAT (Nagy 2019, 76; Fellner *et al.* 2020, p. 17), which also led to a shift in demand towards flats with more than 60 square metres of floor space (Banai *et al.* 2019, p. 3).

Apart from this, which is not shown in Figure 2, it can be assumed that in a macroeconomic environment that is visibly developing favourably, investments in residential property for the purpose of renting also seemed attractive to capital owners. There is at least anecdotal evidence for this, but the exact extent of this cannot be precisely determined without further ado due to the disordered conditions in practice (Vukovich 2018, p. 8): "Considering the predominately informal nature often the sector, rent levels, affordability, and geographical coverage are scarce and of limited liability" (Hegedűs and Horváth 2017, p. 248). Either way, the rental market in

[4] Apart from increased demand, there are of course other reasons for this. The price increase due to an increasingly scarce labour force was mentioned in section 2.3. Since 2012 at the latest, the Hungarian forint has been on a downward trend (European Central Bank 2020), which has led to an exchange-rate-induced inflation of building materials. This overall inflation may be a motive for the successive expansion of the arsenal of family-related subsidies.

Hungary remains weak compared to other European countries. Taking into account the distribution of income and wealth in Hungary, it can be assumed that such investors who did not speculate on selling invested in rental properties mainly for the mobile and partly international upper income bracket. This assumption is feasible regarding the behaviour of investors in Budapest observed even before the financial crisis (see for example Dübel 2006, p. 26). That less was invested in rental properties for the lower income groups is suggested by two observable facts: the high rent level in Budapest on the one hand and the demonstrably low renewal rate in the countryside on the other.[5] Section 4 will deal with the marked disparity between the capital and the country.

3.2 On developments of different groups of actors

The following paragraph examines the extent to which changes by different groups of private actors can help explain the observable post-crisis trends. In some cases, the driving forces behind the marked difference between the capital and the countryside are already apparent. In this respect, section 3.2 already anticipates certain aspects of 4.2. However, this could hardly be avoided without losing clarity and comprehensibility.

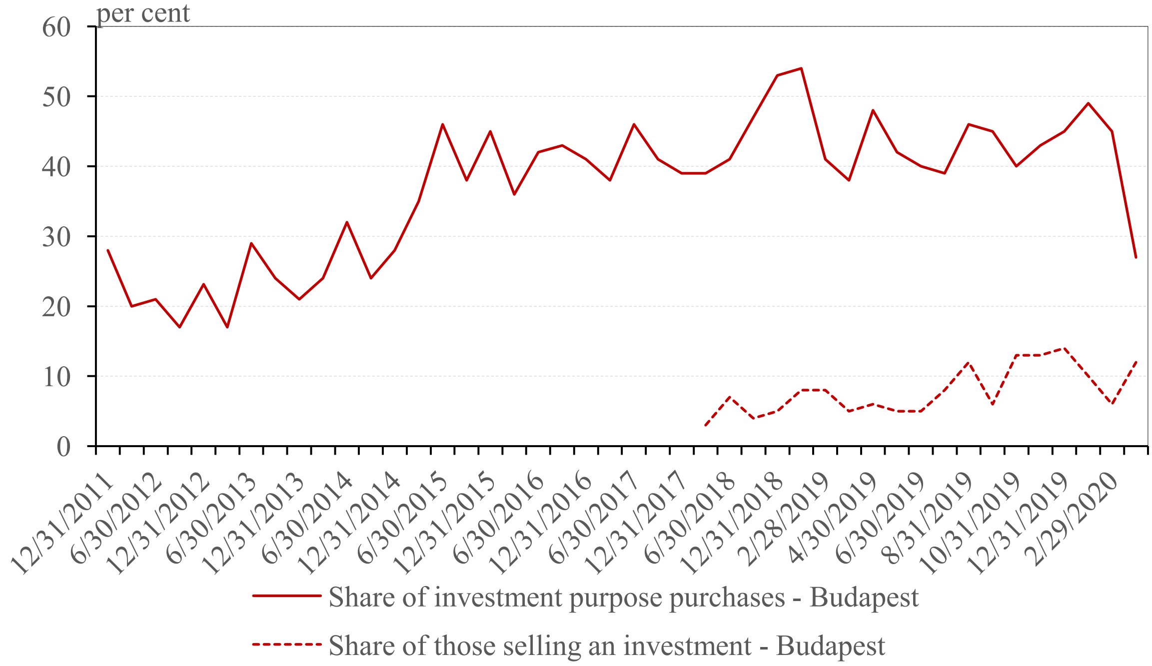
It already becomes clear in sections 2.1 and 2.2 that macroeconomic developments and policies have contributed to increased activity of two groups in the relevant market. On the one hand, we can identify the group of investors already provided with a property and/or capital with family background and/or family motives. On the other hand, we can identify the group of actors who invested in the real estate market independently of individual family planning. To what extent are further differentiations possible here?

Let us look first at the group of private actors and relate the post-crisis period to developments in the decade before the global financial crisis. We take the HCSO data as a basis.[6] What constitutes transactions between individuals between 2001 and 2019 did not change much. On average, 163 housing transactions were carried out per year, with a markedly high volume in the years between 2001 and the global financial crisis. After 2015, the number of transactions again oscillated around the long-term average. However, a change in motives can be observed, which was already mentioned above in connection with the effect of the low interest rate: For example, the share of home buyers for investment purposes increased. This trend is particularly significant in the capital, which is not surprising given the above-mentioned facts. The following Figure 3 shows the development from December 2011 to March 2020 for Budapest.

5 It can be concluded from Figure 1 that the majority of the amount earmarked for renovation should be invested in the capital if the renewal rate in rural areas remains low.

6 Here and in the following: HCSO (2020a).

Figure 3: Share of buyers for investment purposes and sellers of investments in Budapest



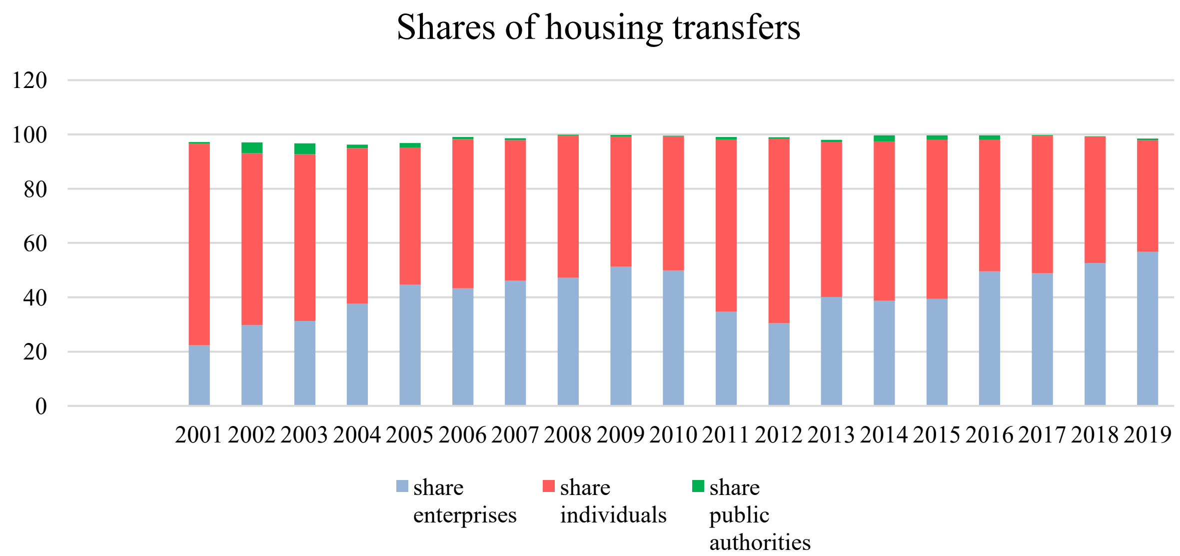
Source: Hungarian National Bank (2020).

In the capital, the share of purchases with investment purpose increased from a little less than 30% in 2011 to a share of over 40% in 2018, after which the trend stagnated for a short period. In 2019, the share had even reached 54%. Whether a level had been reached here that would not have continued, nobody can state with certainty. The introduction of the very attractive Hungarian Government Security Plus in 2019 (see section 4.1) may have been a factor for the trend change. Overall, the group of buyers with investment purpose shows a growth of 70% in the period after the crisis. This is remarkable. In the countryside, this share of this group of actors is, as can be expected, lower. Its share of total transactions grew from 19% to about 30% over the same period. But even this corresponds to a growth rate of 46%. That isn't a little, either.

The shift in motives alone – away from the focus on owner-occupied homes and towards investment in residential property – does not yet shed sufficient light on the development of the overall volume. It is therefore logical to take a closer look at the development of the relationship between the shares of residential property handed over to private individuals or companies. To this end, let us focus on the number of transactions documented by HCSO and also on the decade before the crisis: while in 2001 private individuals were still the clearly dominant group with 74% compared to a share of 6% of companies (the rest being transactions by the public sector), this has shifted significantly in favour of companies over the last two decades. The public sector continues to play only an insignificant secondary role. A trend of increase in favour of companies can be observed initially until 2010. Only 2011 and 2012 saw a clear collapse in this trend as a result of the crisis, but this was followed by a rapid recovery. While in 2014, more than 60% of building owners were still private individuals – i.e. after a decade this group had already shrunk by a third – they already accounted for less than half in 2018 (see

Fellner *et al.* 2020, p. 17). In 2019, according to the Central Bureau of Statistics, 56% of the handovers were made to companies, compared to 41% to private individuals, with the remainder going to the public sector. The significance of this shift will be discussed elsewhere. The following Figure 4 shows the development in a columnar diagram:

Figure 4: Shares of housing transfers nationwide, individuals, enterprises and local authorities



Source: Own illustration, based on data of HCSO (2020a).

All in all, it appears that the dynamic recovery trend was increasingly driven by investment motives on the one hand, while companies as a group of actors gained in importance on the other. It was already mentioned at the beginning that this development is also related to the different development of the capital and the country side as a whole. The following paragraph is devoted to this problem.

4. Regional aspects

The previous paragraphs only touched upon the regional dimension. The following two sections deal with this in more detail, as is essential in gaining a proper picture of developments in Hungary. In the following sections, we will refer accordingly to the aspects mentioned in the previous paragraphs and show regional differences. Section 4.1 focuses on investment activity and the striking asymmetry between the capital and the countryside. Section 4.2 considers social factors that seem to reinforce the observed trends.

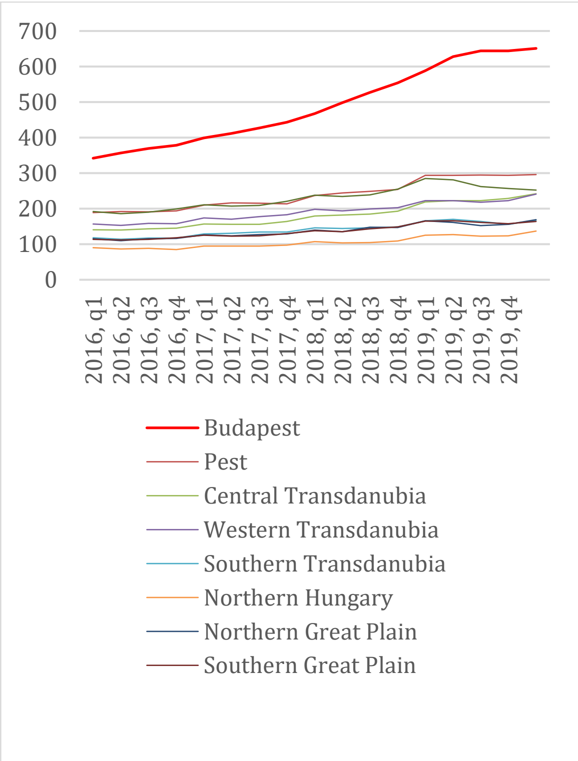
4.1 Asymmetric investments

The following paragraph focuses on the regional differences in investment behaviour.

Whichever factor is considered, the capital clearly has the greatest weight within the uneven development. In 2018, a quarter of the flats handed over nationwide were completed in Budapest (Nagy 2019, p. 76). This exceeds the ratio of the population and must be noted. At the same time, the share of new housing units in the total volume of transactions has hardly changed. The HCSO data show an average of 5% for the years 2007 to 2019, from which there has been no significant deviation: in 2008 and 2009 the average was 9%, then remained at around 3% until 2016, 4% in 2017 and 6% in the two years thereafter (HCSO 2020a). This overhang is also striking if one takes into account the continuing internal migration to the detriment of the countryside (especially in Borsod-Abaúj-Zemplén, Békés, Nógrád; see Vukovich 2018, p. 7).

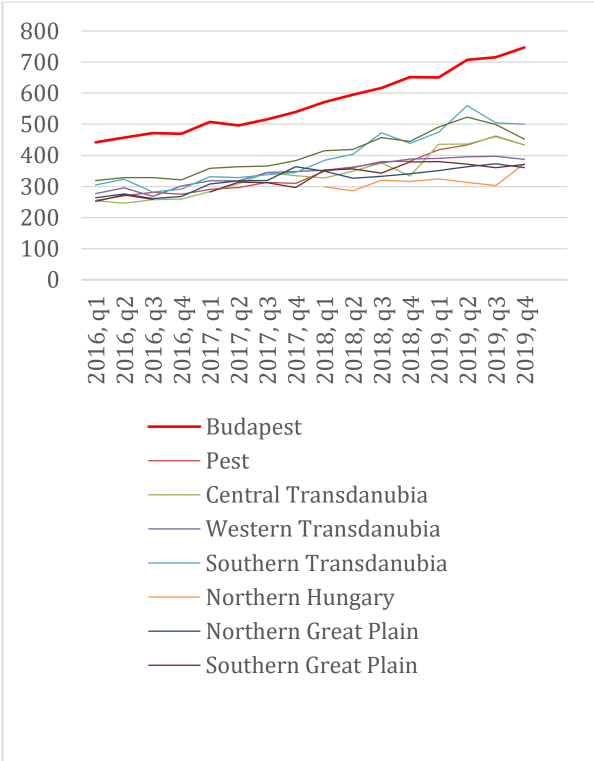
Over the last two decades, the gap between the capital and the countryside in terms of housing prices has widened. And this is particularly true for the development after 2014: the dynamics of the last five years observed above showed an increasing asymmetry between centre and periphery. This trend can be observed in the prices of new and used housing, but first and foremost in the prices of new housing. Figures 6a and 6b compare the evolution of the average price per square metre for used and new dwellings.

Figure 5a Mean price per sqm in HUF by region, second hand dwellings, 2016-2020



Source: Own illustration, based on data of HCSO (2020a).

Figure 5b: Mean price per sqm in HUF by region, new dwellings, 2016-2020



Source: Own illustration, based on data of HCSO (2020a).

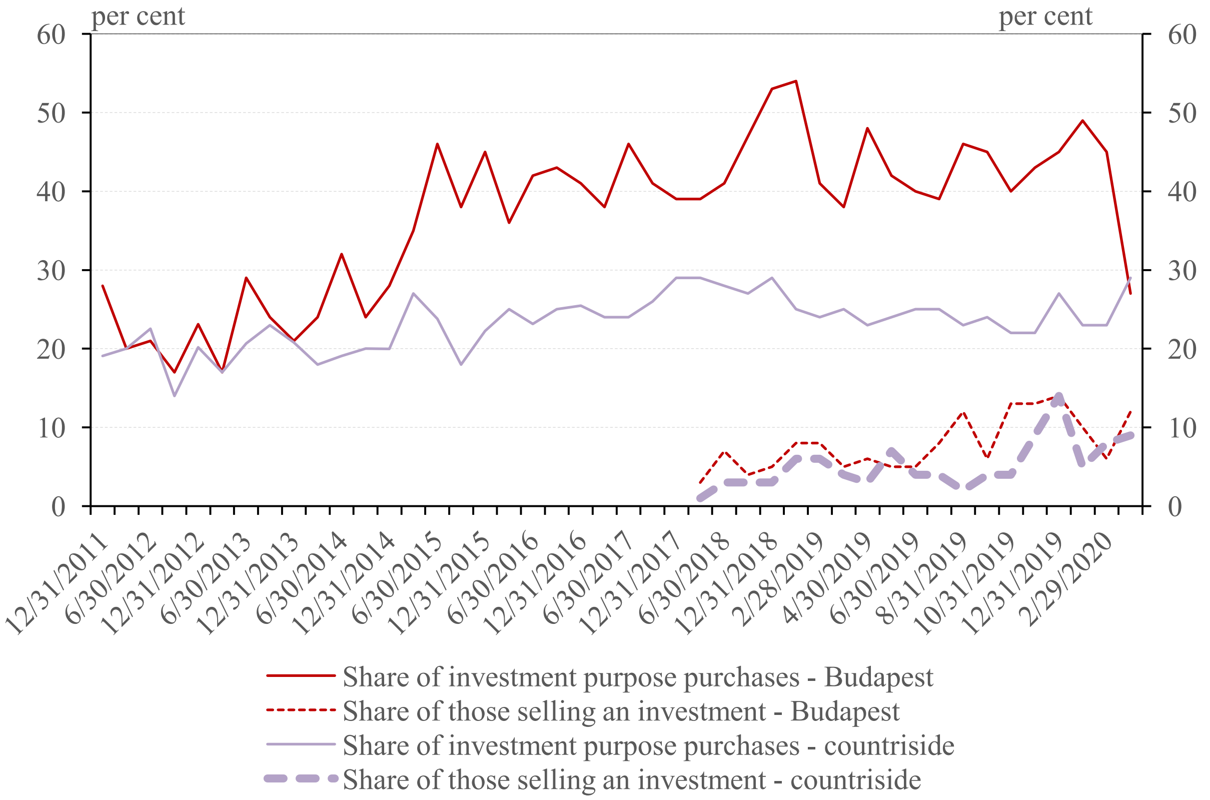
The disproportionately high importance of the capital is of course not surprising *per se*. However, the development of prices is not only striking in proportion to the rest of the country. The extent of this divergence is also striking when compared to other European countries. Whereas, for example, house prices in Berlin grew by 71% between 2011 and 2018, they doubled in Budapest (Bertalot *et al.* 2019, p. 33).[7] In 2019 alone, prices in Budapest rose by over 20% (ibid.) compared to the previous year.

In terms of rent and property prices, no other capital city in the OECD statistics of 2020 (!) was as dynamic as Budapest. If 2007 is taken as the base year, then the nominal house price to disposable income of households ratio is higher in no other European country than in Hungary, with the exception of Austria (ibid., p. 139); and the relationship between price to income ratio deviation in the country and the same ratio in the capital also stands out in a European comparison, as Bertalot *et al.* (p. 35) clearly show. This is not the usual effect of a market upturn in a country with a traditionally overweight centre, but rather a growing imbalance: "The EU country with the greatest house price inflation in general and the greatest additional growth in the capital – with an additional 65% is Hungary" (Bertalot *et al.* 2020, p. 35).

What is the reason for this? First of all, the assumption already briefly mentioned in the upper section seems to suggest that financially strong players jumped on the bandwagon of the upswing and speculated on lucrative sales. This self-reinforcing effect, however, could not even occur on the countryside. This assumption is supported by the data available through the HCSO, which shows an increase of about 20% in the proportion of completed housing units for sale in the capital for the period 2016 to 2019, although at the beginning of the period they already accounted for 71% of the total. Outside Budapest, this figure remained at around 60%. On the other hand, construction for owner occupation in the capital fell by more than half, from 25% to 10% of deliveries. The following figure reflects this trend.

[7] Like all comparisons, however, this one is also limping. In contrast to Hungary, Germany is polycentric, which should lead to less regional divergence in house prices (see Blaseio and Jones 2019); in Berlin the share of people paying rent is 85%. Nevertheless, inflation has been striking in recent years. It can certainly be attributed in part to the continuous high inward net migration, in part to the role of large real estate companies, and has even provoked protests. Nevertheless, the dynamic of the increase in both rent and property prices since 2015 is incomparably greater in Budapest, in contrast to a shrinking population. This must be thought-provoking, especially in view of the average income. A common feature with Berlin is the role of tourism. For Berlin, see Schäfer and Hirsch (2017) and also Schäfer and Braun (2016).

Figure 6: Share of buyers for investment purposes and sellers of investments in Budapest and in the countryside



Source: Hungarian National Bank (2020).

The fact that housing prices in the capital were driven by investments with the intention of selling seems to be confirmed by the observation that the introduction of the very high interest rate Hungarian Government Security Plus in June 2019 (see Hungarian State Treasury 2020) led to an immediate 15-20% slump in demand for housing units in Budapest (Fellner *et al.* 2019, p. 26). Moreover, it can be assumed that the same group of actors did not only focus on sales, but also – as already validated in section 3.1 – invested in rental properties for the mobile and partly international upper income group or tourists. This customer group is admittedly more strongly represented in Budapest than elsewhere in the country (HCSO 2020b). This assumption of this behaviour also seems to be obvious from the fact that the share of tenants in Budapest in 2016 at 15% (Vukovich 2018, p. 9) was almost twice as high as the national average – with an increasing densification and internationalisation of the capital and an extremely positive development of capital city tourism (HCSO 2020c). Foreign investors will also have participated in this trend. In 2016, a total of 39,000 of the inhabited flats in the country were owned by foreigners, 18,000 of them in Budapest (Vukovich 2018, p. 8). Especially in the central districts of the capital, investments have obviously flowed into the possibility of short-term letting. Just how large their volume was is clearly shown by the collapse in rental demand in the central districts in connection with the travel restrictions caused by the pandemic in 2020 (Hergár 2020, p. 19). As far as the demand for purchases in Budapest is concerned, even 75-90% is reported (Fellner *et al.* 2020, p. 12, citing the Housing and Real Estate Market Advisory Board).

While a lot of money was spent on renovations in Budapest due to the densely built environment, Budapest and Pest County were surpassed by Györ-Moson-Sopron County in terms of new housing construction between 2014 and 2018. This is the region on the western border, which benefits above all from the Audi engine plant. This does not, however, change the obvious difference between the capital city and the countryside. Social aspects are inextricably linked to this fact. This is dealt with in the following section.

4.2 Social aspects

The following section adds some social aspects to the issues considered in the previous parts. It should be noted that the latter reinforce the trends described in sections 3 and 4.1.

The gap between the capital city and the country, which is particularly marked in the development of the housing market, is certainly more pronounced than the qualifications or income and living conditions of the population would suggest. Dübel et al (2006, p. 33) already pointed out with reference to Fidrmuc (2002),

> "that net migration between regions has been far less responsive (elastic) to inter-regional wage and unemployment differentials than expected under traditional labor market models. This suggests the presence of some threshold costs of migration that could include relative housing costs."

These threshold costs are already high in a country with a high proportion of occupied ownership and have risen in Hungary in recent years, as shown by the development outlined above. In addition to the asymmetric development, the less developed regions of Hungary, especially in the north-east of the country, have been showing negative migration balances for over a decade. For Budapest and Pest County in particular, but also for the regions around Györ and Sopron, the migration balance is positive (see Bálint/Obádovics 2018, pp. 230-231).

Looking at these internal migration balances in isolation might suggest that the importance of threshold costs is actually less. In this context, however, one must also take into account the fact that with the introduction of the intra-European freedom of movement for Hungarian workers after 2011, many Hungarians left the country to earn a living. This certainly affects broad sections of society, but the majority of emigrants are male and, above all, have above-average qualifications (Gödri 2018, p. 264). Even if it is not possible to make exact statements about the exact composition of the emigrants on the basis of the data of the HCSO, it is plausible to assume that on the one hand those who were best placed in terms of qualification, earnings and assets, and on the other hand the strata with below-average qualification levels remained in the country. This then leads to a further widening of the already existing disparities between regions, especially in favour of the capital. Blaseio/Jones (2019) have already carried out comparative research for Germany and the UK, showing that regional concentration of skilled human capital led to increasing regional house price inequality.

Another indication of a growing imbalance between the capital and the country is shown in the recent housing market report of the National Bank of Hungary. It shows that the renewal rate in Hungary for the period under review is not only relatively low – 0.4% in 2019 (Fellner *et al.* 2020, p. 20) – but is also shifting in favour of those regions where new construction is already underway, i.e. mainly in favour of the capital and near the western border.

This is also remarkable against the background that the average age of the domestic housing stock of over 30 years (Fellner *et al.* 2020, p. 20) – about one third was built before 1960 (Vukovich 2018, p. 14) – would actually suggest a generally higher and, above all, differently distributed renewal rate. Apparently, the urban-rural disparity, which also exists with regard to the quality of the building stock, is growing more pronounced. With regard to the needs of the average population, it can be assumed that there is a trend towards greater disparity between the wealthy and the relatively poor on the housing market. Other indicators also seem to confirm this social gap. For example, the lower the categorisation of housing in the country's settlement centre hierarchy, the more densely it is inhabited (Vokuvoch 2018, p. 18). So there is not only a – growing – price difference, but the further away from the capital city, the worse the housing stock becomes and the more people live in it.

5 Conclusions

The paper puts the question whether the decade after the global financial crisis could have been used sensibly against the background of the historical experience that "after the crisis is always before the crisis".

First, two trends became clear. On the one hand, the government is using the enormously high spread and exceptionally high importance of home ownership in Hungary to score points with its promotion. The subsidies are officially motivated by family policy. By lowering the value-added tax – initially for a limited period, then extended, and in these days again reduced due to the pandemic – it provided a further incentive for activities in the residential property market. In this context, the market is showing a very noticeable dynamic, especially after 2015.

Behind this dynamic, three important developments could be observed: 1) The motives on the residential property market have shifted. The group of buyers of residential property for investment purposes in the capital and on the countryside has grown very strongly. 2) There has been a shift among groups of actors, away from private to commercial players. 3) The dynamics are concentrated to a highly conspicuous degree in the Capital and in the centre of Budapest.

These well-documented events suggest three assumptions. They concern the motives for market activities, their regional impact and a social aspect:

A) The proportion of investments made speculatively or with the aim of letting to a wealthy and partly international upper class has increased disproportionately. The extent of this development suggests that it goes far beyond the agglomeration effects that could have been expected. Provided one is interested in a socially balanced and sustainable development, the supply side has invested wrong.

B) This process has been to the detriment of the countryside, thus reducing even further the opportunities for regionally balanced development. As with the first assumption, the development of these disparities is more pronounced than desirable and also more pronounced than would have been the case had the overall economic development been more favourable. Here, the incentive structure set by the policy is obviously not appropriate. If one takes a closer look at the family policy-motivated support formats, for example, it is striking that, because of their design, only those who already have a sufficient amount of capital in the form of money or home ownership can benefit from support. This leads to the third conclusion.

C) Under the realistic assumption that the family-politically motivated home ownership subsidies will not lead to a real (and lasting) baby miracle, they too contribute to the trend of the erosion (also implied in the first two assumptions) of the already wafer-thin middle class. This trend can then again be clearly seen in the pronounced regional disparities.

It would not be appropriate to present the post-crisis development as lost time overall. It would also be unrealistic to take a nirvana-like balance between town and country and social levelling as a yardstick. However, the last decade shows that a development towards social and regional levelling has only become more difficult. This entails risks that will not be easy to manage because the more such disparities grow, the less disruption is needed to cause greater and more incalculable damage. The government would be well advised to keep this in mind beyond one legislative term.

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