



GENERAL
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HUNGARIAN CONSTRUCTION AND REAL ESTATE MARKET OVERVIEW

contributed by KCG Partners

The Hungarian construction industry was rising rapidly in the last few years but was already showing signs of slowing down by the end of 2019. The growth of production from 2018 to 2019 was a whopping 30 percent, but the growth from 2019 to 2020 was only around 5 percent. Almost certainly this year's production growth would have fallen far short of last year's level regardless of the pandemic. The arrival of the COVID-19 pandemic hit the construction sector in this stagnating state, and due to all the detrimental effects of the pandemic, the construction market was hit hard.

According to analytics, 45 percent of the total project output is affected in some way by the pandemic (i.e. delays, disruptions, supply shortages), including 80 percent of residential buildings, hotels and other accommodation, commercial buildings, industrial buildings and storage facilities. The real estate market is closely linked to the construction market; therefore, it has been rapidly declining as well, producing a staggering 67 percent decline by the end of spring. Since then a slight increase in transactions has started.

Commercial sector

This sector is currently at a stage where there is a great risk of supply and demand becoming disproportionate and the commercial real estate market becomes oversaturated.

Hotels

With the social distancing rules, travel bans and decreased demand of travelling abroad or within the country (the booked hotel nights of Budapest hotels in July decreased by 84 percent when compared to last year), hotel projects came to a standstill, and will likely to be far less in the focal point of investors until the end of the pandemic, when travelling has bounced back, and people are allowed to and want to go out into the public areas. About 7,000 hotel rooms are planned to be handed over during the next 3 years, representing 12.4 percent of the total capacity in 2019. Of these, 4,000 rooms will be built in Budapest, the majority of the rest being Lake Balaton and its surroundings. These developments have now all slowed down or were suspended. Experts expect that tourism will return to the 2019 level by 2023-2024. Nevertheless, it is likely that there will be large investors with more liquidity who can consider and trust tourism in the longer term, so they will have good opportunities to purchase assets.

Malls, shopping centres

With people staying home and spending more time at home, shopping habits and daily needs have clearly changed. For example, online traffic has doubled compared to last year's numbers. The demand for visiting large shopping malls or outlet stores has been replaced by preferring smaller convenience stores being located closer to the homes of people looking to spend as little time as possible in crowds. This caused the vacancy of shopping malls to double (to around 4 percent in the country), however they are expected to keep their function in the next year.

Offices

Even though working from home has become a new standard for many companies (40 percent of total employment in Budapest was transferred to work from home in May), the paradigm of needing office space (especially for the IT and financial sectors which generate a high demand) hasn't declined rapidly. Vacancy in modern offices increased to 8 percent in September 2020, mainly driven by declining demand and the newly built office spaces. This year, a total of 200,000 sqm of new office space will be available on the market, and a 16 percent increase in supply is expected between 2021 and 2022.

Logistics

The most resilient segment has been the industrial and logistics real estate market, which continues to have a very low vacancy and slowly responding to the new supply of available spaces. For this reason, the proportion of pre-leases is high even for new industrial properties that have not yet been handed over.

Residential Sector

Due to the changing dynamics of the real estate sector, the Hungarian government decided to focus on the residential and housing sector. With the reclaiming of the 5 percent VAT on new homes from 2021 (applicable to flats not exceeding 150 sqm and houses not exceeding 300 square meters), both the construction and the real estate market could receive a huge boost. As a result of the long-awaited measure, supply might finally expand substantially, with up to 3,000-4,000 additional new homes being built yearly, meaning about 12,000 new homes built in total on a yearly basis.

The government also introduced a program which is expected to solve the problem of neglected industrial zones located within city limits. The VAT for new homes built or refurbished in these areas will be reduced to 5 percent as well to speed up the urbanization process and to supply new homes for the high demand.

Further to lowering the VAT back to 5 percent and the support of rust-zones, the government introduced other programs to aid housing projects. Couples willing to have children within a certain amount of years can already receive non-repayable state aid to be used for purchasing both new and existing real property, they can have the VAT refunded, and also, they don't have to pay any duties or fees when purchasing said property.

For house renovation projects, eligible families with children can receive up to HUF 3 million aid if the renovation costs reach or exceed HUF 6 million starting from 2021. This measure is said to increase the number of home remodelling projects by 50 percent.

The real estate market in Budapest is in definite need of refreshment, where over the last couple of years, real estate prices have tripled or quadrupled. This spectacular rise resulted in the market reaching price levels last year that substantially reduced demand, dramatically reducing transaction numbers. With all the above measures and the new supply of residential projects and houses, the trend of increasing prices might be alleviated with the result of 100-200 thousand new homes built in the next 5-10 years based on the announced regulations and the attitudes of market participants.

Potential, opportunities and risks

Even with the shifting of demand, there is a lot of potential in real estate in Hungary, with numerous opportunities especially in housing projects. The government is fully supporting families and the construction market to build new homes in large volumes over the next years to normalize the overgrown prices that are present today. The demand for these homes is already visible and palpable, especially in Budapest.

Logistics and industrial real estate are always needed, this sector is still considered a proper investment, although with greater investments and a longer return period.

As for offices, investments and projects in this sector might become profitable on an even longer time span, with the ever-present slight risk of people getting accustomed to or needing to work from home for a longer time period due to the pandemic situation and/or government orders.

As for the current pandemic situation, there are still unseen factors that could potentially change the demand and paradigm of the real estate and construction market situation. These include safety measures, travel bans, curfews or any government regulation having an indirect negative effect. As seen with the first wave of the pandemic, the biggest risk it contains for the real estate market is uncertainty and unpredictability.

Nevertheless, investor interest in the real estate market has not disappeared but waiting and price-seeking has become a characteristic behaviour. The government announcements and initiated programs with the favourable VAT and aids will hopefully help many projects get the green light.

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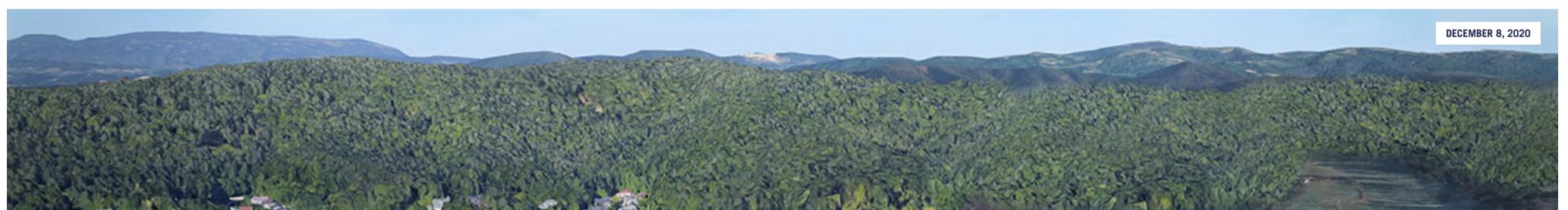
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