

Game changer regulation in Hungary's housing market: what project information implies

In [Buildecon's last year's blog post](#) we wrote a short introduction about how we created market information out of individual project data. Through different aggregation procedures, we are calculating three indicators: Activity Start (=total value of started construction works in a given period), Activity Completion (=total value of completed construction works in a given period) and Output (=the amount spent on construction in a given period). The aggregation is done on a quarterly basis for 18 segments of the market by constructed object type and the findings can be found in the EBI Construction Activity Report.

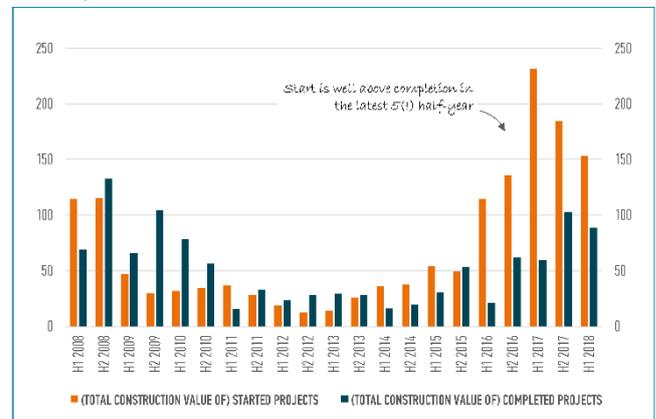
Our below piece is what we see on the residential market in Q2 2018 based on the latest aggregation.

The favorable VAT rate (instead of 27%, a reduced, 5% VAT rate) on new housing transactions in effect in Hungary since 1 January 2016 is to be phased out on 1 January 2020. Due to its highly positive impacts on construction, many developers had hoped for the extension of the scheme, but in Summer 2018 the government announced that there would be no such lowered VAT rate applicable from the beginning of 2020.

Now the key question is how exactly the favorable VAT rate will be phased out. The completion date of many projects is due in the second half of 2019, which, considering the delays typical of the segment, can easily endanger their completion. Current market conditions - shortage of contractors and shortage of building materials - make it difficult to comply with this date. In addition, not much is known whether there will be any subsidy to compensate for the massive rise in prices owing to the expected resetting the 27% VAT rate from the current 5% on housing transactions. Should there be such subsidy introduced, developers wouldn't have a hard time experiencing a most drastic slump in demand despite rising prices, and they would continue to invest in projects. Also, it remains to be seen how much can be passed on to customers from the reset VAT rate. Depending on demand, developers can decide on

project by project basis about their expected profit margin.

ACTIVITY OF MULTI-UNIT RESIDENTIAL SEGMENT
HUF BILLION, CURRENT PRICE



SOURCE: EBI CONSTRUCTION ACTIVITY REPORT Q2 2018

Total construction value of started projects and total construction value of completed projects in the multi-unit residential segment

Even before the announcement made in Summer 2018, the uncertainty surrounding the favorable VAT rate predicted that with time there would be a gradual decrease in the number of new housing projects started. This prediction has also been proven by the decline in the Activity Start Indicator for multi-unit residential construction of EBI Construction Activity Report in Q2 2018. Specifically, the expected value of projects where construction started was 49% less in Q2 2018 than in Q2 2017. This trend could continue now that there is no hope for extending the favorable VAT rate. Some projects might be cancelled, especially those where works have not yet started or those in initial phases.

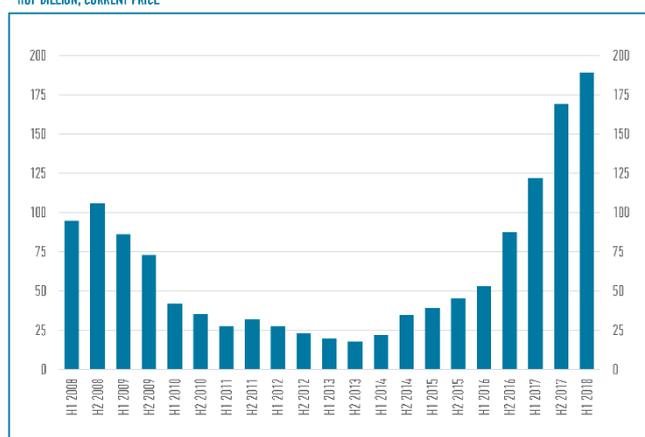
However, projects are not expected to halt in the multi-unit residential segment as developers being able to continue to profitably implement their projects can continue their development plans. This is backed by the fact that so far there have also been projects with an expected completion date after 2019, that is, the period after the phase-out of the reduced VAT rate.

Caution is visible though: in H1 2018 the value of commenced multi-unit residential projects has been far less than in the same period a year earlier. In the first six months of this year, the value of started multi-unit residential projects was HUF 153bln, which is a 34% decrease over the same period of 2017 and a

17% drop against H2 2017. After the peak in H1 2017, Activity Start in value terms in Q1 2018 was HUF 86bln and in Q2 2018 it was HUF 67bln, returning to the 2016 level.

Activity Completion Indicator (total construction value of completed projects) is currently in the uptrend, however, as more and more multi-unit residential projects are entering completion phase in 2018 and 2019. In H1 2018, multi-unit housing construction was completed on HUF 89bln, less than in H2 2017, but nearly 50% more than in H1 2017.

OUTPUT OF MULTI-UNIT RESIDENTIAL SEGMENT
HUF BILLION, CURRENT PRICE



SOURCE: EBI CONSTRUCTION ACTIVITY REPORT Q2 2018

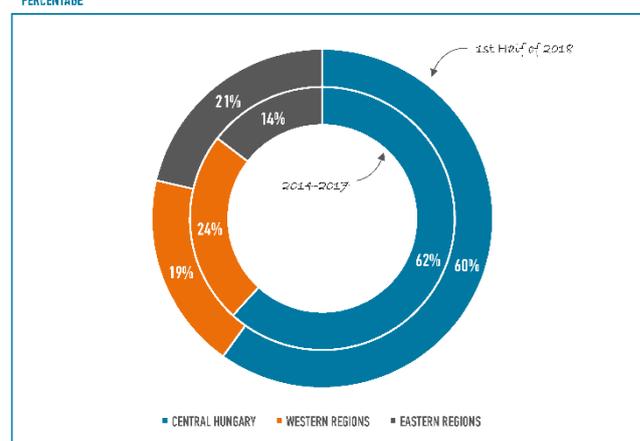
Output: the amount spent on multi-unit residential construction in a given period

Ever since the introduction of the reduced VAT rate among other stimuli measures in the beginning of 2016, the amount spent on multi-unit residential construction has been dynamically increasing. This is what we call Output. We measure it at current price, so part of the hike is the result of the growing labor and building materials prices. In H1 2018, multi-unit housing construction in Hungary amounted to HUF 189bln, while the respective numbers in H2 2017 and in H1 2017 were HUF 169bln and HUF 122bln. This also means that since the beginning of 2016 more than HUF 620bln have been spent on various multi-unit residential projects.

Much of the multi-unit housing construction activity is still concentrated in the Central Hungary region. However, an above-average drop was seen here in H1 2018, so the region's share fell to 60%. In the capital city of Budapest, the total value of commenced construction works dropped by 42% in

H1 2018 over H1 2017 (by 30% over H2 2017). The biggest ongoing multi-unit housing projects are still in Budapest, though, the only exception being a big-league project in the city of Szeged (Cédrus Liget) where more than 530 flats are planned to be built by the end of 2019. In Budapest the largest-scale ongoing projects include the first two phases of BudaPart (645 flats), Metrodom Park (640 flats) and Metrodom Panorama (631 flats), Corvin Átrium (531 flats), as well as Sasadliget phases 4 and 5 (519 flats) and Buda Bolero Residential Park phase 2 (470 flats).

REGIONAL DISTRIBUTION OF ACTIVITY START IN MULTI-UNIT RESIDENTIAL SEGMENT
PERCENTAGE



SOURCE: EBI CONSTRUCTION ACTIVITY REPORT Q2 2018

Regional distribution of Activity Start in Hungary: total construction value of started projects

EBI Construction Activity Report is Buildecon's research on quarterly processing one of the biggest construction project databases in Hungary with the aim of creating aggregates from project data carrying new information on the performance of construction market segments. As official data on segment level become available with a big time-lag, these aggregates assist in now-casting and short-term forecasting. The cooperation includes ibuild.info (project research and project database), ELTINGA Centre for Real Estate Research and Buildecon (creation of indicators and development of algorithms for aggregation).

For the extract of the report please follow [this link](#).

Sources:

1. Press Release on EBI Construction Activity Report Q2 2018 written by Tünde Tancsics (ELTINGA)
2. EBI Construction Activity Report Q2 2018



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