Airbnb: A Convenient Scapegoat for Budapest's Property Squeeze

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Tourism is traditionally limited to the confines of highly regulated and high-barriers-to-entry sectors – such as the hotel industry. It has its beneficiaries and its negative externalities (noise, parking, drain on public services, etc.). The sharing economy unleashes the price effect of tourism on properties that would otherwise stay residential. By lowering the barriers to entry for hosts Airbnb does provide an opportunity for landlords to reap some yield on their property value – which should not be taken away from them just because the hotel lobby feels overregulated in comparison.

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> AIRBNB CONSOLIDATES THE OPPORTUNITY COST OF HOUSING TOWARD THE HIGHER END OF THE PRICE SCALE - GLOBALLY

However, while Airbnb and the arrival of the sharing economy to the Budapest property market has provided owners with opportunities, it has also linked Budapest homeowners to the global tourism bloodstream – in a new way. Airbnb consolidates the opportunity cost of housing toward the higher end of the price scale - globally.

Complaints regarding Airbnb can be split into two distinctive parts. One part is regarding noise, disruption of local communities and other externalities. These complaints are legitimate, but relate to tourism in general, not to the sharing economy in particular – as evidenced by the fact that some heavy tourist destinations are introducing measures against them as well.

The economic impact of the sharing economy on the Budapest property market are as follows:

1. *It caters for a more affluent demand than the long-term, local tenants, thus pushes opportunity costs higher.*

This impact is, however, of a short-term nature. Since around 2015, a massive gold rush seems to have appeared in Budapest. But the get-rich-quick Airbnb market is unsustainable and will cool down (especially in the highly speculative rent-to-let sector).

2. *More troubling impact is that the gold rush puts extra psychological pressure on an already overheated property market – as evidenced by the gap between offer prices and the number and price of actual deals closed.*

This market rally, however, is not the result of Airbnb – even if the media is fixated on that. As it will be later pointed out in detail, the property market boom is a result of the combined impact of a coordinated government effort to increase property prices, a new subsidized loan program for home buyers, and an investment rush into the property market from both locals and foreign investors. This, in turn, is the consequence of an ailing real economy, stock markets, extremely low interest rates, and cheap mortgages.

> LONG-TERM PROPERTY RENTALS ARE IN THE GRAY ZONE OF THE HUNGARIAN ECONOMY FOR HISTORIC REASONS. STATISTICS ARE UNRELIABLE AND TAXATION IS UNENFORCEABLE. THIS, IN TURN, LEAVES TENANTS IN A PECULIARLY SHAKY POSITION. AIRBNB CAN RECTIFY THAT

3. *In the long run, Budapest property market will be permanently changed – not due to the current wave of sharing enthusiasm, but the regulatory light shed on the commercial property sector.*

Long-term property rentals are in the gray zone of the Hungarian economy for historic reasons. Statistics are unreliable and taxation is unenforceable. This, in turn, leaves tenants in a peculiarly shaky position. Airbnb can rectify that. It has brought this market into the forefront of authorities' attention – triggering retroactive tax inspections and a whitening of the rental market in general. In the long run, taxes built into the rental prices will push prices up for long-term tenants as well. Moreover, it also provides the sector with much-needed transparency.

THE SIZE OF THE RENTAL MARKET

According to the National Office of Statistics, 89.7% of Hungarians lived in owner-occupied properties in 2010[1]. That is a huge number – but unlikely to be correct. The real number should be more in line with other European countries. According to the Eurostat the EU-28 average was near 30% – with 19.1% of the population being tenants with a market price rent, and 10.8% in reduced-rent properties or in free accommodation in 2014[2].

According to informed estimates by the biggest property agent website, ingatlan.com, there can be 100-200 thousand properties on the residential rental market in Hungary. It is hard to get any better data from official statistics, due to the huge share of the black market rentals, avoiding taxes and

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[1] Társadalmi helyzetkép (2010) by the Hungarian Office of Statistics (KSH). Available [online]: https://www.ksh.hu/docs/hun/xftp/idoszaki/thk/thk10_lakas.pdf

[2] Housing statistics of Eurostat (2014). Available [online]: http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing_statistics#Tenure_status

not registering tenants to avoid legal consequences. Countrywide, the average price is around 100 thousand forints (300 euros), while it is around 140-160 thousand forints (500 euros) in Budapest – without bills. The size of the residential rental market as of 2016 is estimated at around 144-240 billion forints (465-700 million euros) – most of it on the black market[3]. According to the latest census, there are 383 thousand empty properties in the country, but mostly in areas where economic opportunities are scarce, rendering these properties largely unmarketable.

Supply and demand of rental properties have both grown in 2015. According to ingatlan.com, 170 thousand private individuals were looking for tenants in 2015 – and that is not the complete number. In 2016, the market has grown even further, with 20-75% more advertisements for homes for rent posted compared to the same months the previous year.

Online accommodation rental site Airbnb has already reached 8,000 home listings in Hungary, with some 3,500 of these located in Budapest in August 2015. Since then, they have ceased to give comprehensive data, but it can be assumed that some of those listings were not entire apartments. Also, if anyone has spent any time looking for an Airbnb host, they will know that the number of amateur and inactive hosts can be exasperating. They are not very responsive and/or amateurish hosts that hardly mean a competition to either hotels or long term tenants. 2015 was also a boom year when hype around Airbnb reached Budapest and the gold rush was most pronounced in the media. Anyone, who had not done so yet, started thinking about opening an Airbnb.

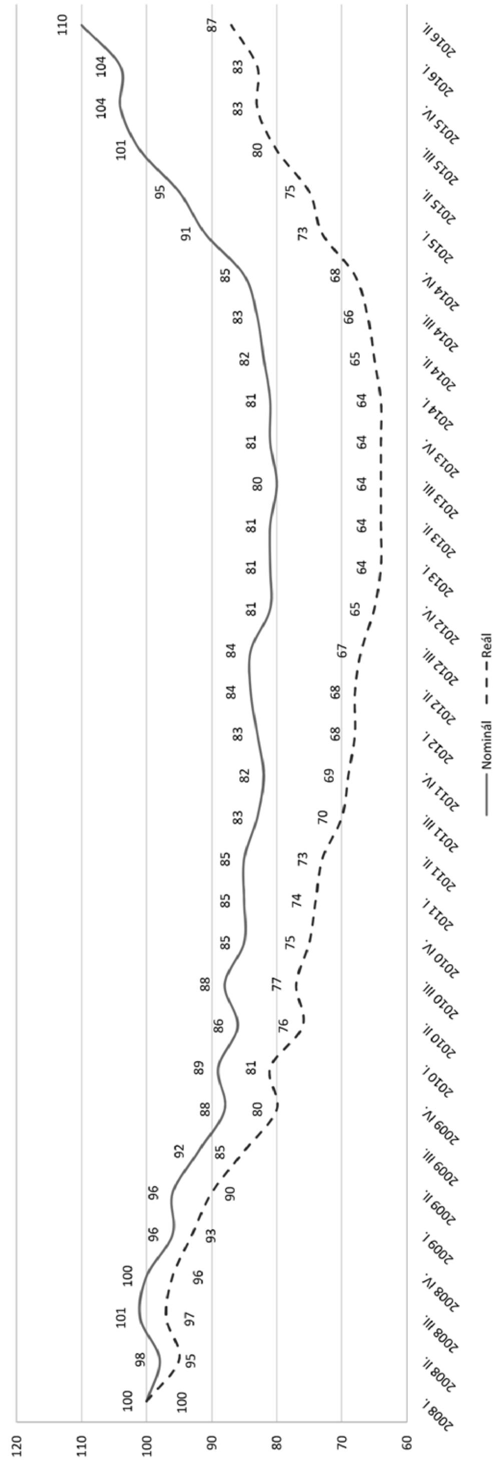
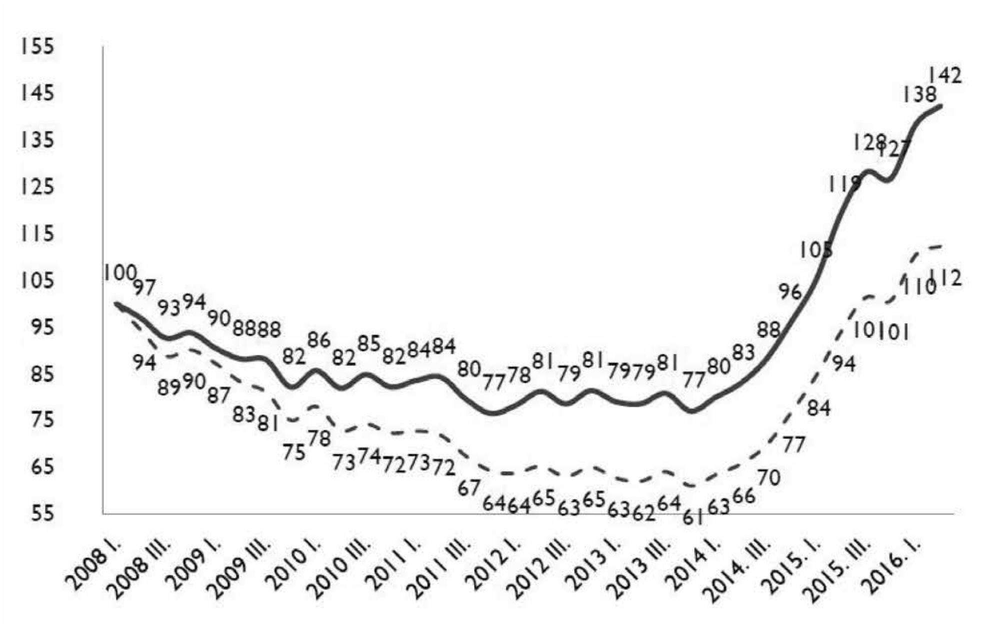


Figure 1. House Price Index - Hungary (2008-16)

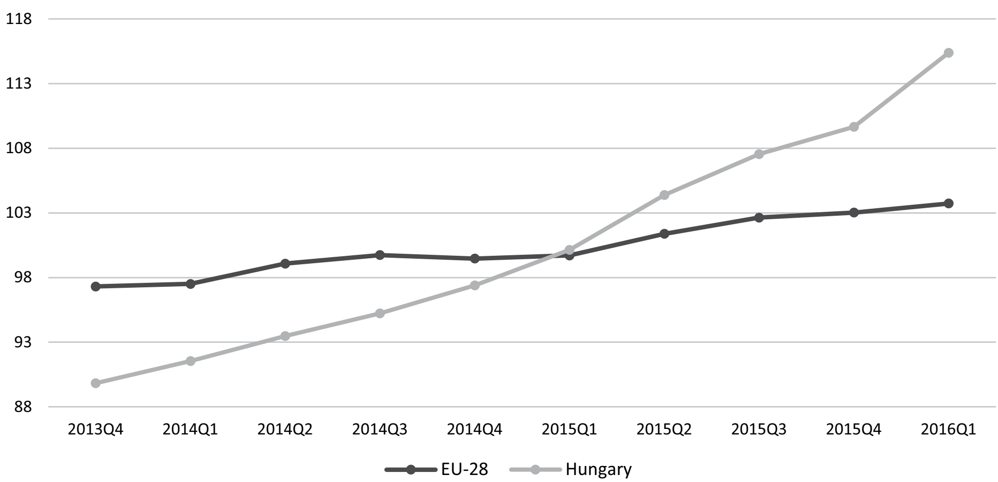
[3] http://www.budapestingatlan.info/article/a-berlakaspiac-oriasi-uzlet-240-milliard-forintot-is-felolelhet-510

Figure 2. Budapest House Price Index (2008-16)



Source: Duna House

Figure 3. House Price Index EU-28 vs. Hungary (2010 = 100%)



Source: Eurostat

The market was heavily oversaturated and some of the listings were clearly unrealistic. In the absence of clearer data, downtown Budapest must have had around a thousand or so Airbnb listings of entire apartments at the height of the mania. Add that to the number of investment buyers and we have a problem.

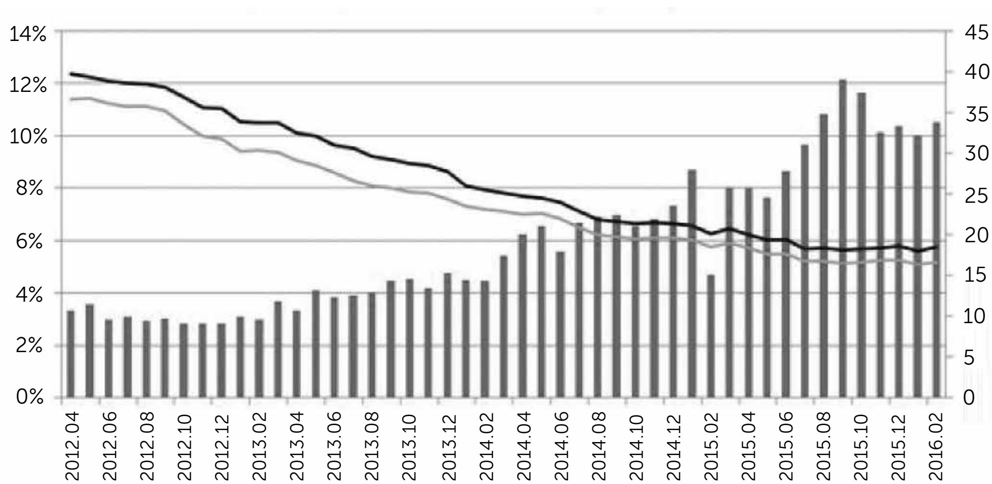
The opportunity cost of renting out a downtown property has indeed risen. But Airbnb is only a part of the story. Price pressure is coming from many powerful sources. The overall mania is fueled the government-induced buying boom, compounded by very real buying pressure from foreign investors and property funds seeking return on their investment in a low-interest environment.

San Francisco rental prices will not come down because Budapest prices are lower, but Budapest prices may converge towards the higher price end. Workers are not geographically flexible (yet), but tourists with higher purchasing power are. Which is also the reason anyone with any money to spare tries to buy a second property for investment and rental in Hungary.

MONEY RUSHING INTO THE PROPERTY MARKET IS A MUCH BIGGER FACTOR

Yes, Airbnb puts upward pressure on local rental prices inasmuch as it consolidates opportunity cost of renting an apartment towards the global higher end. But that is not the whole story. In fact, that may be a small part of the story. To understand the whole depth of the price pressure one must look at the general investment and interest rate environment, not just in Hungary, but globally. Yields of the property market have been beating returns on any other form of investment – attracting any liquid capital to the underpriced Budapest property market.

Figure 4. Forint Mortgages in Hungary (2012-16)
Interets (LEFT axis) and Volume in bn forints (RIGHT axis)



Source: Central Bank

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> ## YEARS AFTER HOUSING PRICES IN MOST EUROPEAN CAPITALS REBOUNDED FROM THE FINANCIAL CRISIS, BUDAPEST'S MARKET STARTED TO SHOW SIGNS OF LIFE IN 2015

Years after housing prices in most European capitals rebounded from the financial crisis, Budapest's market started to show signs of life in 2015. Hungarian and foreign investors were buying apartments at prices still below their pre-crisis peak and in the hope of robust returns.

Home prices in Hungary rose for the first time in five years in 2014 after the market, then-dominated by Swiss franc mortgages, collapsed when the forint plunged in 2008. Prices in Budapest soared 13% in the first quarter of 2015 compared to the same period in 2014, according to Duna House, a real estate agency[4], while Eurostat recorded a similar increase to the first quarter of 2016 (15.2%).

According to Eurostat, Hungary has seen the greatest annual increase in the house price index year-on-year among the 28 member states of the European Union in the first quarter of 2016 – followed by Austria (13.4%)[5].

Interest rates are still low, pushing savings out of banks and into the property market, while also allowing for low mortgage rates. The government's first home buyers' policy has also pushed mortgage rates lower. Interest rates on forint-denominated mortgages have not been this low since the 1980s.

According to Duna House, 42% of Budapest property transactions were reported for investment purposes in 2016 – while 22% were first home buyers, and 15% upsizing.

This effect is combined with the government's new subsidized home making loan policy that would provide families with 10+10 million forints (approx. 70 thousand euros) in loans and subsidies to buy a new home in exchange for three children. The conditions for the subsidy are Byzantine and ever changing, but the interest is enormous. Until July 2016, 32 billion forint (100 million euros) worth of subsidies and loans have been applied for in this scheme. The price hike had appeared literally overnight in asking prices – even before any details emerged about the loans, let alone the applications could have gone through. A few months in and home makers are suffering under the regulatory burden while applying for the free money – in the meantime, the 20 million forints it promises is losing its purchasing power rapidly.

As a consequence of these three factors, the average asking price per square meter has increased from 220 thousand forints (700 eu-

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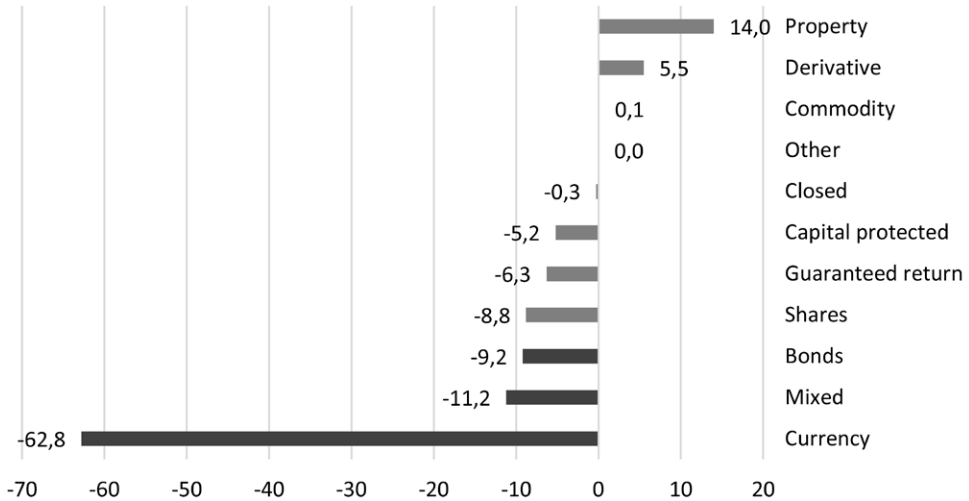
[4] Duna House report. Available [online]: https://dh.hu/barometer.

[5] Source: Eurostat EU House Price Index. Available [online]: http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do

Figure 5: Investment funds are the most active buyers of commercial property in Budapest



Sourec: bamosz.hu

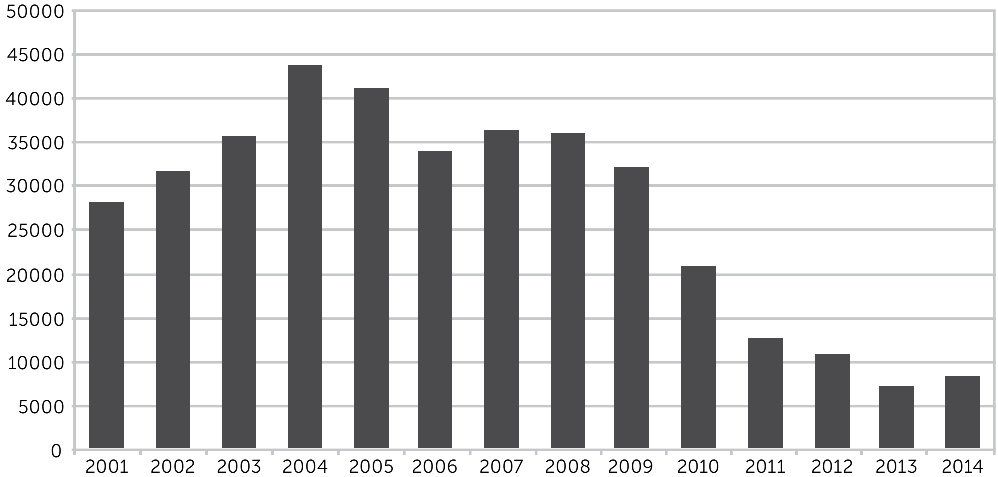
ros) to 312 thousand forints (1000 euros) on Hungarian average – a 30% increase between July 2015 an July 2016 – but asking prices have grown even more in sought-after areas, such as the capital. The most popular districts within Budapest (districts 5., 6., and 7.) have seen an increase of over 40% year-on-year between 2014 and 2015, according to otthonterkep.hu, a property investment agent, while the next most popular ones (district 8. and 9.) both became over 30% more expensive per square meter during the same period.

In 2015, Bloomberg quoted government figures and property agents on the glory of investing in Budapest. "*Central Budapest is the hotspot for investors offering rentals to visitors, whose numbers rose 15 percent since 2010, government data show. Investors can earn a 20 percent yield on short-term rentals in central Budapest and 5 percent on long-term leases*"[6]. The article also helpfully points out that "*Budapest real estate was rated the top*

[6] http://www.bloomberg.com/news/articles/2015-05-20/investors-reap-20-on-budapest-rentals-as-tourism-grows

> WHILE THE GOVERNMENT IS DEAD SET TO CHASE OUT INNOVATIONS OF THE SHARING ECONOMY – MOST RECENTLY UBER – THEY ARE APPEARING TO ACTIVELY PROMOTE LANDLORDING AND HOME OWNERSHIP THROUGH VARIOUS POLICIES

Figure 6. New homes built in Hungary (2001-2014)



Source: National Office of Statistics (KSH)

long-term investment among 35 European cities by globalpropertyguide.com in 2014, based on rental yields, transaction costs and regulations". With press like this, it is hardly surprising that the property market boomed even more in the year since the report came out.

However, rent-seeking investments, such as properties, are about the least innovative and productive ways of making money. While the government is dead set to chase out innovations of the sharing economy – most recently Uber – they are appearing to actively promote landlording and home ownership through various policies[7]. Alternative investments, such as the real economy languish in the meantime.

PROPERTY FUNDS SEE UNPRECEDENTED INTEREST

According to the regular survey of GKI, a Hungarian economic think tank, expectations about the performance of the housing market in Budapest are at 9-year high – fueling interest in investment[8].

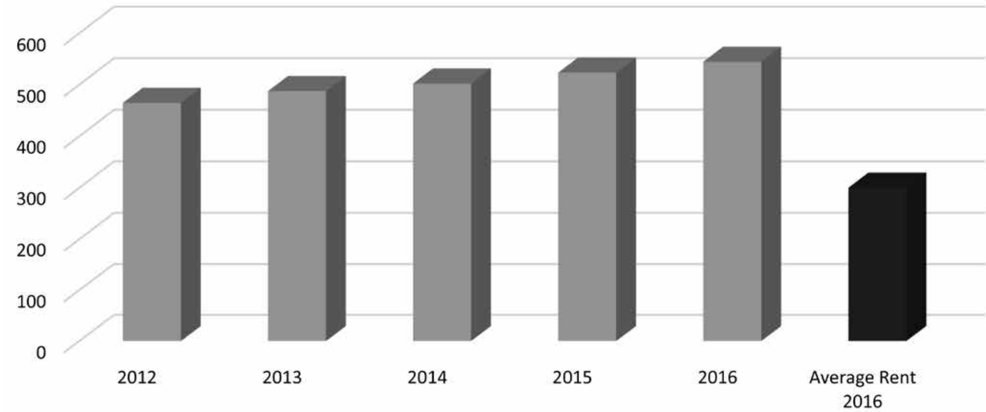
According to the Hungarian central bank (MNB), in the last quarter of 2015 Hungarian investment funds handled almost 6000 billion forints, and 11.6% of their investments were on the property market according to bamosz.hu. The property funds available to the public have seen a boom in the last years. In August 2012, Hungarian property market investment funds handled less than 350 billion forints, the amount grew to 523 billion by August 2015.

Record low interest rate environment is chasing money out of banks and even stocks, and into the property business. The biggest losers among funds were the ones investing in stock, with 63 billion pulled out in the last couple of months, and another 20 billion forints left funds trading in bonds. Property-based funds,

[7] Members of government and the ruling party also show an extraordinary interest in everything real estate. Scandals and accusations about shady property deals and cronyism galore, while the central bank also spends an unprecedented amount of money on buying up property – not just in Budapest, but castles and villas on the countryside.

[8] http://www.gki.hu/language/hu/2016/02/08/kilenceves-csucson-a-gki-mgyosz-ingatlanindex/

Figure 7. Average monthly net wages vs. rent (without bills) in EUR – countrywide



Source: National Office of Statistics (KSH)

however, have seen 14 billion influx during the same period according to bamosz.hu. This adds to the buying pressure by funds, in order to keep their relatively high returns. [See Figure 5]

Even small investors are struggling to cash in on the current boom and try to invest in real estate funds. Form August 2016, the first fund is opening with an overwhelmingly residential property portfolio. Apart from actually buying and managing a property, small investors can now invest for as little as under 200 euros a share.

FOREIGN CAPITAL SEEKING A HAVEN IN EUROPE

Before the crisis in 2008, it was the Spanish and the Irish buying up Budapest properties in bulk – then that demand collapsed alongside the mortgage market of their home countries. Since 2014 investors make up a growing pawrt of the housing market again. In April 2015, 32% of buyers said they purchased housing in Budapest as an investment, up from 21% in 2014, according to one agency.

Talking to agents and property owners in downtown Budapest, there is plenty of anecdotal evidence of another trend. Foreigners, most visibly Chinese investors buy properties by the dozen – partly as a safety bet from turbulence at their home markets, partly as a result of the government's press campaign to push Budapest properties to foreigners, and last but not least, their generous residency permit program, that sells residence permits to non-EU citizens in exchange for buying at least 300 thousand euros worth of government bonds – and investors follow up from there[9].

As a rule, the more developed and predictable a property market is, the lower the return on investment. London, for instance, is a very good example with its 3-4% expected annual returns in the inner boroughs – despite the massive prices. Outer districts,

[9] The program has been recently revealed to sell an instant resident permit to basically anyone, who buys 300 thousand euros worth of government bonds through the offshore companies of certain government-friendly lawyers. (Scandals also implicated the mayor of Budapest's 5th district, which is the epicenter of the property boom.) 3647 residence permits have been sold that way since 2013 (to the end of June 2016), 85% of them to Chinese, 7% to Russian clients. Source: HVG.hu. Available [online]: http://hvg.hu/itthon/20160510_Magyarorszag_varja_a_betelepuloket http://hvg.hu/gazdasag/20160209_letelepedesi_kotveny_offshore_Rogan_Wiedemann

however, can see better yields – and so can less developed markets, such as Budapest. The Hungarian government commits everything in its power to attract foreign money into the Budapest property market. The government's official website dedicates a segment to data on double-digit returns and catchy descriptions on "Bauhaus architecture" and "ridiculously cheap" places downtown.

The price drop following the financial crisis, coupled with the weakness of the forint and low interest rates globally have come together to create the perfect storm – and prices have seen an unprecedented rise. Property price waves tend to start with increased foreign interest, followed by the locals catching up – and ends with every liquid asset locked down in properties. With the current rush towards residential property by investment funds this seems to be the case – questioning the sustainability of the model. Not to mention that the current boom is not the result of neither demographic pressure, nor economic growth – merely relies on tourism.

Statistics only count foreign investors outside of the EU – data on intra-EU investments are not available – but 2015 has seen a 50% rise in these kind of investors (to near 4000 transactions), adding up to more than 2% of all transactions. In downtown Budapest, the number is closer to 20% – not including the transactions by companies and other legal entities (foreign or Hungarian) owned by foreigners[10]. In 2015 31% of transactions to non-EU foreigners went to Chinese, another 22% to Russians. 69% of these transactions were concentrated in the capital[11].

[10] http://www.portfolio.hu/vallalatok/lakas/tizesevel_veszik_a_belvarosi_lakasokat_a_kinaiak.232778.html

[11] http://www.mfor.hu/cikkek/befektetes/Racuppantak_a_kulfoldiek_a_pesti_ingatlanokra.html

Just as the above macroeconomic factors, these global financial developments are also out of the control of an average Hungarian buyer or tenants – yet they are expected to pay the price. Finally, the absence of new homes being built compounds the bullish effect of the above factors.

THE LOW PURCHASING POWER OF LOCALS

The low purchasing power of locals is another field the government would rather not have us discussing – even though that has more to do with Hungarians' inability to afford a place in Budapest than the few hundred Airbnbs downtown.

As of 2016, the average take home pay in Hungary is 516 euros according to the Office of National Statistics. Naturally, there are regional differences and Budapest comes top, but it still puts a break on the rental price locals are able to pay.

The average rent countrywide is 300 euros (plus bills), so very nearly the same as the average take home pay, which is 516 euros. In Budapest, average rents are over 500 euros (plus bills). While rental prices have grown up to 30-40% in certain parts of Budapest year-on-year between early 2015 and 2016, net wages have only grown by 6% in the meantime. That is not sustainable.

Due to the low purchasing power of permanent tenants, it is highly questionable whether the Airbnb business model is sustainable in the long run and tourism alone can keep delivering these returns. The model may not be sustainable – especially if we calculate with the solid emigration pattern. Rising rents in economically viable regions and the capital add to the already mounting motivation to look for a better paid future elsewhere. If not even housing is cheap in Hungary, what stops people

> IF NOT EVEN HOUSING IS CHEAP IN HUNGARY, WHAT STOPS PEOPLE FROM LEAVING?

from leaving? That, in turn, will leave Hungary with low-income workers and relatively affluent tourists – and rent-seekers ever more desperate to make it work.

If wage levels do not catch up with European standards, Budapest cannot sustain this property boom. Hungary is already suffering from decreasing competitiveness – because even though there are plenty of unemployed, even low-skilled sectors suffer from brain drain from abroad. But that is a problem for another paper.

THE LONG-TERM BENEFITS OF AIRBNB

The long term benefit of a service such as Airbnb would arrive from an unexpected place: from the whitening and transparency of the Budapest rental market. There are no reliable official statistics neither on residential, nor on touristic rental in Hungary. The existing numbers are based on self-reporting – and that is not incentivized. Not even the tax authority has an estimate about the size of the market – hence the estimates of property agencies are used here. The National Office of Statistics knows only about a tiny percentage of rental properties in Hungary and 88% of the population supposedly lives in an owner-occupied property. That is not a realistic assumption. At this moment as many as 10 thousand properties are listed for rent in Budapest on the biggest Hungarian real estate portal – and the actual size of the market must be multiple times this number.

The black market in property rental has a historic and an economic reason. Keeping it between the landlord and tenant saves paying taxes for the landlord – which would mean extra rent for the already squeezed tenant. The bureaucratic framework of renting out an apartment is not only clunky, but subject to unpredictable changes – often politically motivated. But once a property is registered as commercial, the enduring attention of the tax authority is all but guaranteed. (And more often than not, even their retroactive attention.)

In the absence of regulation of residential rentals, the rights and responsibilities of tenants and landlords are vague and regulated only by the civil code. That may often give more rights to tenants – provided the case goes through a lengthy court process – but no one is quite sure. It is compounded by urban legends about landlords being stuck with long-gone tenants' name in the property register as their legal address, caught by tax authorities or blocked from evicting tenants due to (again, anecdotal) tenants' rights. (There is literally zero search result on Google for "tenants' rights" or "tenants' alliance" in Hungarian, but using search terms such as „Budapest property prices" had earned this researcher weeks of advertisements for stellar yields from investing in Budapest rental properties.)

As a consequence, many are not only outpriced from buying a property, but even find it impossible to rent. Not to mention tenants with children, who are avoided by landlords due to similar concerns about their rights. On the administrative side, there is a farcical situation where tenants have registered legal residence somewhere else, typically with their parents – often hundreds of kilometers away. The quickest way to becoming legally homeless is not having a friend or family member that allows one to be registered at their address – while living in a rental home.

Unlike Airbnb, a typical rental contracts are still virtually unenforceable in Hungary. Tenant rights are scarce and in the absence of a regulation. Contracts are unenforceable because they are usually hidden from authorities. Landlords avoid registering their tenants and no one has a clear idea about rights and responsibilities.

But it is ultimately an untenable situation with massive social impact. The uncertainty of those, who cannot afford to buy not only drives the quality of the housing stock down – it impacts the life choices of entire generations. In the absence of a rental code or any association of tenants, renting with a child or even a pet is a challenge – even when the couple can afford the asking price.

The solution to this status quo might have come from an unlikely source: Airbnb. **Tax men have never shown a propensity for investigating the tax status of Budapest's rental market. With the appearance of the sharing economy and with the government's appetite for a cut of the profits that might change**. In the short run this whitening of the market will hurt tenants by increasing the prices even further. But the unintended, long-term consequence of this may be a more transparent rental market with more defined tenants' rights – and that would be a major step forward.

In the long run those landlords who are forced to whiten their business will end up on the commercial property register – and with a habit of complying with the law. In combination with tenants' rights this may consolidate the Budapest housing and rental market.

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TENANTS' RIGHTS MAY OR MAY NOT BE IN THE MAKING, BUT THE GOVERNMENT MADE SURE TO TAKE A CUT OF AIRBNB INCOME

The government's answer to the entire Airbnb-triggered controversy so far was: more taxes and more enforcement. They approached the problem from the perspective of tourism – as opposed to that of residential rentals – which is completely misguided and aims to take a cut from the profits, rather than easing the pain of long-term tenants.

The government's plan is to introduce an extra tax on 1500 forints (5 euros) per square meter for rental apartments is targeted at Airbnb profits[12]. With the average rent in Budapest which comes to about a 10% of rental income – on top of the usual taxes. Tenants' rights may or may not be in the making, but the government made sure to take a cut of Airbnb income.

CONCLUSIONS

Issues surrounding Airbnb can be split into two distinctive parts worldwide. One part is regarding externalities. These complaints are legitimate, but relate to tourism in gen-

[12] http://hvg.hu/gazdasag/20160413_Uj_adoval_sujtana_a_kormany_a_lakasberbeadokat_1500_forint__negyzetmeter

eral, not to the sharing economy in particular. The second issue is regarding price pressure on the local residential rentals.

However, when we look at the housing price rise in Budapest, it was only partly about the unleashing of tourism on the residential property sector. Actually, it was the smaller part. The current property boom is also actively fueled by the government. Apart from visible marketing efforts to advertise the "undervalued" Budapest properties to more affluent foreign buyers and investors chasing yields in a low-interest environment – the Hungarian government also provides affluent non-EU citizens with residence permits for buying 300 thousand euros in government debt. These mostly Chinese and Russian buyers then appear on the Budapest property market buying up properties in bulk for investment.

Another government policy driving prices up and fueling the frenzy is a subsidized loan scheme aimed at first home buyers in exchange for delivering three children. Massive interest and bubble-like asking price hikes followed even the announcement – and a hundred million euros worth of applications have been submitted since. Building of new homes has also been sluggish for years, adding to the price pressure in economically viable regions.

All these have naturally filtered through into the rental markets that experienced even bigger price rises. On top of this, Hungarian residential rentals are largely on the black market – adding to the plight of tenants. But rather than creating a tenants' code, the government has intervened from the tourism angle, making sure to take a cut from Airbnb profits.

But Airbnb can still contribute to the improvement of the sector by shedding some regulatory light and indirectly helping to untangle the ignorance surrounding tenants' rights and responsibilities. But that only appears in the long run.

The other problem to solve is the low real wages in Hungary. While it is government policy to keep wages down to attract manufacturing and processing industry jobs – it has already hurt the economy by pushing out workers and retaining only the unskilled and unemployed. Average net wages compared very poorly to average housing costs – even before the current boom.

The ultimate problem would be adjusting the flexibility of labor to that of capital and tourism – and not just in terms of migration, but through the wide scale adaptation to telecommuting and innovation. ●

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