Property barometer

13 March 2024

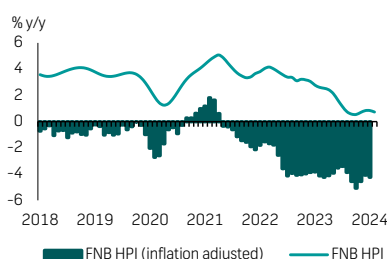| **0.7%** ↓	**49.71** ↓	**10 weeks and six days** ↓
y/y FNB HPI	Market strength index	Time on market

Key themes

- Interest rates have likely peaked, with a measured cutting cycle coming into view in the latter half of 2024.

- Our projections of slightly lower interest rates, moderately better growth outcomes, and continued employment gains should help support a modest lift in demand for property, and consequently, property prices from 2H24.

- However, risks to the inflation outlook are skewed to the upside, and should they materialise, borrowing costs may remain high for longer than we currently anticipate, which could delay the expected recovery in housing markets.

- Positively, surveyed data suggests improved housing market conditions in 1Q24, although there is lingering uncertainty over near-term sustainability.

A sideways movement in house prices, in line with expectations

Figure 1: FNB HPI

Source: FNB Economics

The FNB House Price Index growth averaged 0.7% y/y in February, slightly lower than the 0.9% in January (revised from 0.6%) (Figure 1). These low levels of house price appreciation should persist in the near term, amid still elevated living and borrowing costs, as well as heightened political uncertainty, both domestically and internationally. That said, our base case view suggests that the house price cycle has bottomed, and that the gradual decline in inflation and borrowing costs from 2H24, combined with some employment gains, should modestly stimulate demand in the interest-rate sensitive segments over the medium term, which would support a moderate uptrend in house prices (see our comprehensive outlook here and a supplement note here).

Encouragingly, surveyed data shows that buying activity has trended higher in the last few months, which has seen a reduction in the time it takes to sell a property. However, there is still a great deal of uncertainty around the sustainability of these improvements. Below, we summarise the latest FNB Estate Agents Survey results.

Economists

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Estate Agents Survey results for 1Q24: Activity gains continued into 1Q24

Figure 3: Time on market

Source: FNB Economics

Figure 4: % Agents satisfied with market conditions
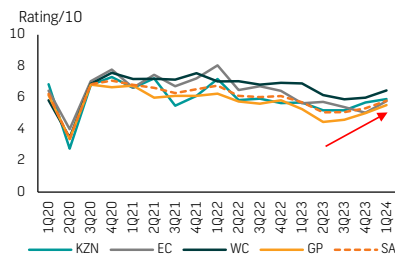
Source: FNB Economics

Market activity rating defied estate agents' previous expectations and ticked up further, to 5.8 in 1Q24, from 5.3 (out of 10) in 4Q23. The recent trend in activity rating suggests that home buying activity bottomed out between 2Q23 and 3Q23 and is now on the recovery. Nevertheless, the current rating remains slightly below the long-term average of 5.9 (since the inception of the survey in 2004), and considerably (18.3%) lower than the most recent peak of 7.1 in 4Q20. The improvement was broad-based across regions covered by the survey, with the E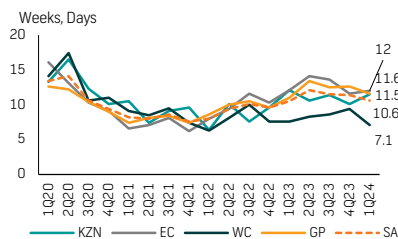astern Cape seeing the strongest recovery, from 5.0 to 5.8. The Western Cape once again recorded the highest activity at 6.5, bettering last quarter's 6.0 rating. Recent gains in Gauteng and KwaZulu-Natal persisted, with 1Q24 ratings climbing to 5.5 and 5.9, from 5.0 and 5.7, respectively, in 4Q23 (Figure 2).

That said, **forward-looking indicators** suggest a general lack of conviction among estate agents that this increase in activity will be sustained in the near term. Only 38% of respondents expect activity to increase in 2Q24, up from 31% previously. This reflects agents' lingering concerns around affordability, political uncertainty, and lack of job security.

On the back of improved activity, the **average time** that properties are on market for sale was shorter in 1Q24, averaging 10 weeks and six days (76 days), from 11 weeks and four days (81 days) in 4Q23. Regionally, results suggest that much of the improvement emanated from the Western Cape and Gauteng, while KwaZulu-Natal saw its average time on market lengthen by one week and four days to 11 weeks and five days. In the Eastern Cape, average time on market moved sideways, at approximately 12 weeks (Figure 3).
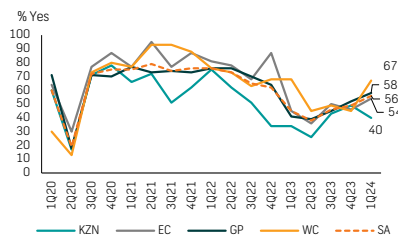
Taken as whole, these market developments somewhat lifted agents' mood further in 1Q24. The proportion of estate agents who are **satisfied with current market conditions** increased from 49% in 4Q23 to 56% in 1Q24. The improvement was relatively broad-based across regions, except for KwaZulu-Natal where sentiment declined, following two quarters of recovery from extremely low levels in 2Q23 (Figure 4).

Reasons for selling: Financial pressure-induced sales receded in 1Q24, registering 19% from 25% of total volumes in 4Q23. At this level, these sales closely align with the historical average of 18% (since 4Q07), having hovered above this level for most of 2023. Sales attributed to relocation within SA (semi-gration) ticked up to 13% of sales in 1Q24 from 11% previously. While semi-gration slowed in recent months, survey results suggest that they are still above the long-term average of 9% since

the inception of the survey question in 4Q07. Incidents of upgrading have also slowed considerably since the beginning of the tightening cycle, from 15% in 4Q21 to 11% in 1Q24. Emigration-related sales were steady at 8%, significantly lower than the peak of 18% observed in 2019 but in line with the long-term average since 4Q07 (Figure 5).

Figure 5: Most common reasons for selling: 1Q24

Reason for selling (% of total sales)	Aggregate	<R250k	R250k–R500k	R500k–R750k	R750k–R1.6m	R1.6m–R2.6m	R2.6m–R3.6m	>R3.6m
Downscaling due to financial pressure	19.3	20.7	33.9	23.9	21.3	17.8	14.4	13.3
Downscaling with lifestage	22.4	9.9	12.2	9.9	23.0	26.5	31.3	28.1
Emigrating	8.0	3.1	3.9	3.5	5.1	9.5	13.1	14.0
Relocating	13.2	14.4	10.6	13.2	13.1	14.6	14.0	10.6
Upgrading	11.3	24.9	7.0	17.0	10.1	9.0	7.3	9.8
Moving for safety and security reasons	8.1	8.5	6.3	16.6	9.3	6.0	3.8	5.3
Change in family structure	10.8	8.1	9.4	5.7	11.2	11.9	12.7	13.0
Moving to be closer to work or amenities	7.0	10.5	16.7	10.3	6.9	4.7	3.5	5.8

Source: FNB Economics

Monthly FNB House Price Index (% y/y)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2001		-1.7	-0.7	-0.4	-0.5	0.7	3.0	5.9	8.6	10.6	11.6	11.8
2002	11.6	12.0	12.8	13.8	14.2	14.0	13.6	13.1	13.2	13.5	13.8	13.8
2003	14.0	14.5	15.3	16.2	17.1	18.2	19.3	20.3	21.4	22.9	24.7	27.0
2004	29.4	31.3	32.4	33.2	33.7	33.9	34.5	35.1	35.3	35.2	35.3	35.4
2005	34.8	33.8	32.9	31.8	30.7	29.7	28.8	27.9	26.9	25.7	23.9	21.7
2006	19.9	18.5	17.6	17.3	17.3	17.2	16.9	16.5	15.8	15.1	14.4	14.0
2007	14.0	14.3	14.9	15.7	16.3	16.6	16.3	15.5	14.5	13.2	12.0	11.0
2008	9.7	8.0	5.5	2.5	-0.4	-2.9	-4.7	-5.6	-5.8	-5.6	-5.1	-5.1
2009	-5.0	-5.0	-4.5	-3.8	-2.8	-1.8	-0.7	0.0	0.5	0.9	1.2	2.0
2010	3.0	3.9	4.6	5.2	5.6	5.5	5.0	4.7	4.5	4.1	3.7	3.1
2011	2.4	2.1	2.0	2.2	2.5	2.8	3.3	3.6	3.8	3.9	4.1	4.4
2012	4.7	4.8	4.8	4.7	4.6	4.7	4.9	5.2	5.6	5.7	5.8	5.8
2013	5.9	6.0	6.1	6.1	6.1	6.3	6.5	6.4	6.3	6.5	7.0	7.7
2014	8.2	8.3	8.2	8.3	8.4	8.3	8.0	7.8	7.6	7.2	6.8	6.2
2015	5.8	5.9	6.3	6.5	6.6	6.4	6.3	6.2	6.1	6.2	6.3	6.3
2016	6.3	6.2	6.1	6.0	5.9	5.8	5.7	5.6	5.4	5.1	4.8	4.8
2017	4.7	4.6	4.5	4.3	4.2	4.1	4.1	4.2	4.2	4.2	4.0	3.8
2018	3.5	3.3	3.4	3.5	3.7	3.8	3.9	4.0	4.1	4.2	4.1	4.0
2019	3.8	3.6	3.4	3.4	3.4	3.5	3.6	3.7	3.8	3.7	3.5	3.0
2020	2.4	1.9	1.4	1.3	1.4	1.7	2.3	2.8	3.2	3.6	3.8	4.1
2021	4.4	4.7	4.9	5.1	4.9	4.5	4.1	3.7	3.5	3.3	3.4	3.7
2022	3.8	4.0	4.2	4.0	3.8	3.6	3.4	3.4	3.1	3.2	3.2	3.1
2023	2.8	2.6	2.4	2.3	2.0	1.5	1.1	0.7	0.6	0.6	0.7	0.8
2024	0.9	0.7										

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Note on The FNB House Price Index:

The FNB Repeat Sales House Price Index has been one of our repertoire of national house price indices for some years, and is based on the well-known Case-Shiller methodology which is used to compile the Standard & Poor's Case-Shiller Home Price Indices in the United States.

This "repeat sales approach" is based on measuring the rate of change in the prices of individual houses between 2 points in time, based on when the individual homes are transacted. This means that each house price in any month's sample is compared with its own previous transaction value. The various price inflation rates of individual homes are then utilized to compile the average price inflation rate of the index over time.

The index is compiled from FNB's own valuations database, thus based on the residential properties financed by FNB.

We apply certain "filters" and cut-offs to eliminate "outliers" in the data. They main ones are as follows:
- The maximum price cut-off is R15m, and the lower price cut-off is R20 000.
- The top 5% of repeat sales price growth rates, and the bottom 5% of growth rates are excluded fromthe data set.
- Repeat transactions that took place longer than 10 years after the previous transaction on the same home are excluded, as are repeat transactions that took place less than 6 months after the previoustransaction on the same home.
- The index is very lightly smoothed using Central Moving Average smoothing technique.

Note on the FNB Valuers' Market Strength Index:

When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple "good (100)", "average (50)", and "weak (0)". From all of these ratings we compile an aggregate demand and an aggregate supply rating, which are expressed on a scale of 0 to 100. After aggregating the individual demand and supply ratings, we subtract the aggregate supply rating from the demand rating, add 100 to the difference, and divide by 2, so that the FNB Valuers' Residential Market Strength Index is also depicted on a scale of 0 to 100 with 50 being the point where supply and demand are equal.

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