Property barometer

18 November 2024

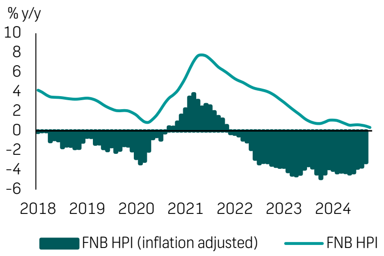
0.3%↓ y/y FNB HPI

51.29↑ Market strength index

11 weeks and two days↓ Time on market

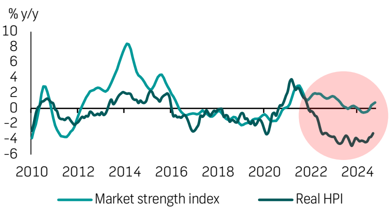
A stagnant house price index despite renewed buying activity

Figure 1: FNB HPI



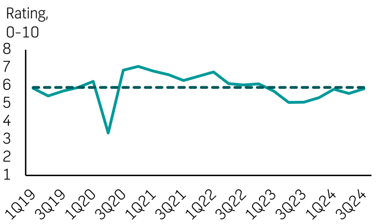
Source: FNB Economics

Figure 2: Market strength index vs Real HPI



Source: FNB Economics

Figure 3: Estate agents' activity rating



Source: FNB Economics

The latest FNB House Price Index (HPI) indicates a continued period of price stagnation, with just 0.3% y/y growth in October, down from 0.5% in September (Figure 1). This comes despite signs of a recovery in buying activity. A historical comparison of real house prices to our market strength indices suggests that current real house prices should be higher (Figure 2). This divergence may indicate that while buyer interest has increased—due to improved sentiment and expectations of further rate cuts—market forces have not been sufficient to generate significant upward momentum in property values. As we emerge from the cost-of-living crisis, current trends suggest that buyers remain cautious, prioritising affordability. Nevertheless, we maintain a cautiously optimistic outlook, supported by easing inflation, declining borrowing costs, improving real incomes, and strengthening consumer sentiment.

Below, we summarise the latest FNB Estate Agents Survey.

Estate Agents Survey results: Rebounding from election jitters and affordability concerns in 3Q24

The latest Estate Agents Survey reveals a cautiously optimistic housing market in 3Q24, following a period of election-related anxiety and persistent affordability challenges. Market activity ratings edged higher to an average of 5.8, up from 5.6 in the previous quarter, though still marginally below the long-term average of 5.9. This improvement, coupled with a continued recovery from recent lows, suggests that the market has bottomed out, particularly since the latter half of 2023 (Figure 3). Notably, the uptick in activity was driven by stronger market sentiment in middle-to-high-priced segments.

Improved sentiment driving activity in middle-to-higher-priced segments

While the affordable housing market remains a critical area of resilience, activity moderated in 3Q24 as elevated interest rates and stricter lending standards continue to limit affordability. The segment recorded an activity rating of 7.1, down from 7.4 in the previous quarter. Conversely, activity in the traditional market (middle-to-higher-priced segments) rose from 5.1 to 5.4, as market sentiment

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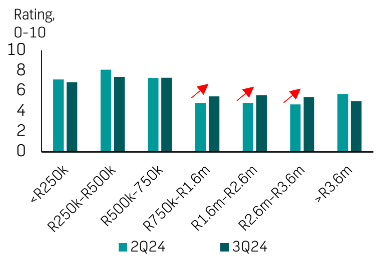
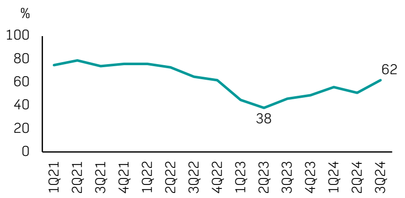
Figure 4: Activity by price segment



Source: FNB Economics

Figure 5: Estate agents sentiment



Source: FNB Economics

played a more significant role in driving activity (Figure 4). Importantly, the survey was conducted prior to the SARB's rate cut decision, and underscores that sentiment is a stronger lever in higher-priced segments, while lower-priced markets remain more sensitive to fundamentals such as interest rate movements.

Looking ahead, 58% of agents anticipate more robust market momentum in the near term (in Q4), with agents in higher-priced segments showing more enthusiasm. This could indicate that agents expect the gradual interest rate cutting cycle to have a delayed impact on activity in the affordable market— a view we share.

The survey also highlights regional disparities in market performance. Activity levels moderated in the Eastern Cape and KwaZulu-Natal, while Gauteng and the Western Cape experienced a surge in market activity, with Gauteng showing the most significant improvement. Falling home prices in Gauteng may now be drawing buyers' attention, while we view the moderation in Eastern Cape and KwaZulu-Natal as possibly reflecting a recalibration after a previous increase.

Shorter selling times and improved agent sentiment

The rise in market activity has led to shorter selling times, with properties now staying on the market for an average of 11 weeks and two days, down from 12 weeks and two days in Q2. This reduction was observed across all regions, particularly in the higher-priced segments. While the affordable market has not yet shown the same momentum, we anticipate improvements as interest rates decline. Agent sentiment saw a notable rebound, with satisfaction jumping from 51% to 62%, once again driven by the higher-priced segments (Figure 5).

Financial pressures and downscaling with life-stage continue to drive sales

As in previous quarters, the primary reasons for property sales remain downscaling due to life stage and financial pressures. Life-stage downscaling, including retirees moving into smaller homes, accounted for 22% of total sales, while financial pressure-induced sales increased slightly to 23% (Figure 6). These sales, which remain above the long-term average of 18%, reflect the ongoing strain many households face. Sellers motivated by financial pressure continue to favour downsizing rather than renting, reinforcing the persistent buying-down trend. Relocation within South Africa held steady at 14%, but still exceeds the long-term average of 9%. Upgrading activity slowed to 10%, reflecting a cautious approach to taking on additional debt amid high interest rates. Emigration-related sales decreased slightly from 8% to 7%, a far cry from the peak levels seen in 2019.

Figure 6: Most common reasons for selling: 3Q24

Reason for selling (% of total sales)	Average	<R250k	R250k-R500k	R500k-750k	R750k-R1.6m	R1.6m-R2.6m	R2.6m-R3.6m	>R3.6m
Downscaling due to financial pressure	22.5	34.3	32.0	24.1	20.9	22.4	18.8	16.7
Downscaling with lifestage	22.4	11.5	16.0	10.5	23.1	26.7	29.2	27.3
Emigrating	6.5	4.7	5.0	5.6	5.2	5.6	10.0	9.3
Relocating	13.6	15.9	15.0	14.6	13.1	14.1	10.6	13.3
Upgrading	10.2	11.9	11.0	13.4	10.2	8.6	9.6	9.3
Safety reasons	7.9	7.2	10.0	10.5	9.5	6.7	6.0	7.2
Change in family structure	11.4	7.0	5.0	11.0	12.1	11.7	12.4	13.7
Moving to be closer to amenities	5.5	7.7	6.0	10.5	5.9	4.2	3.4	3.2

Source: FNB Economics

Conclusion

The 3Q24 survey reflects a housing market cautiously rebounding from earlier election-related uncertainty and affordability challenges. While affordability remains a key constraint in the affordable housing segment, improving sentiment—particularly in the middle-to-higher-priced segments—has begun to drive activity. However, financial pressures and affordability issues still weigh on the broader market, indicating a recovery that will likely remain gradual and sensitive to both sentiment shifts and future interest rate movements.

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	3.8	4.4	4.9	5.0	4.9	4.8	4.6	4.6	4.5	4.4	4.1
2011	3.7	3.2	2.8	2.8	3.1	3.5	3.9	4.1	4.1	3.9	3.8	4.0
2012	4.4	4.7	5.0	5.0	4.7	4.5	4.4	4.4	4.5	4.7	4.8	4.8
2013	4.8	4.9	5.2	5.6	6.1	6.6	6.9	7.2	7.3	7.4	7.5	7.7
2014	7.8	8.0	8.1	8.1	8.1	7.8	7.6	7.3	7.0	6.7	6.5	6.3
2015	6.2	6.2	6.2	6.2	6.1	6.1	6.0	6.1	6.3	6.6	6.8	6.7
2016	6.4	5.9	5.3	5.0	4.9	4.9	5.0	4.9	4.7	4.2	3.9	3.6
2017	3.5	3.7	4.0	4.2	4.3	4.4	4.3	4.2	4.2	4.2	4.3	4.3
2018	4.2	4.0	3.7	3.5	3.4	3.4	3.4	3.3	3.3	3.2	3.3	3.3
2019	3.3	3.3	3.1	2.9	2.6	2.4	2.2	2.1	2.1	2.1	2.0	1.9
2020	1.6	1.2	0.9	0.9	1.2	1.6	2.2	2.9	3.4	3.7	4.1	4.7
2021	5.5	6.3	7.1	7.7	7.8	7.7	7.4	7.0	6.5	6.3	6.0	5.7
2022	5.3	5.1	5.0	4.7	4.5	4.3	4.2	4.1	4.0	3.8	3.6	3.2
2023	2.9	2.6	2.2	1.9	1.6	1.3	1.0	0.8	0.7	0.7	0.8	1.0
2024	1.1	1.0	0.9	0.7	0.6	0.6	0.6	0.6	0.5	0.3		

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ADDENDUM - NOTES:

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.