Property barometer

10 September 2024

0.6% ↔
y/y FNB HPI

50.24 ↓
Market strength index

12 weeks and two days ↑
Time on market

Benign inflation and imminent rate cutting cycle offers a glimmer of hope to the housing market

Forecast changes

We have revised our inflation outlook downward, primarily due to a quicker strengthening in the rand exchange rate as domestic political uncertainty has eased and global sentiment improves. This adjustment has led us to anticipate an earlier interest rate cutting cycle. We now forecast two 25bps repo rate cuts this year and another 25bps cut early next year. However, a more aggressive slowing in inflation or the real Federal Funds Rate poses downside risk to this projection. Furthermore, we have increased our GDP growth forecast, reflecting the easing of energy constraints, lower inflation, anticipated interest rate cuts, improved market sentiment, and refined assumptions regarding the impact of the two-pot pension system (Table 1).

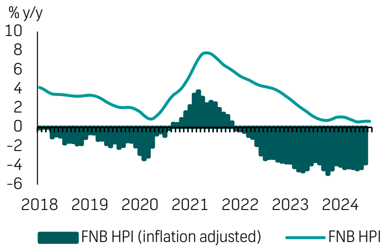
Impact on housing market

These adjustments suggest a slightly more optimistic outlook for buying activity and house price growth in the coming years. Improved economic activity, a more benign inflation environment, and looser monetary policy could improve affordability for potential homebuyers, stimulate demand and support house price growth. While we maintain our predictions for 2024 and 2025, we have revised our forecasts upward for 2026 from 3.3% to 3.6%.

Current market conditions

The FNB House Price Index (HPI) growth averaged 0.6% y/y in August, unchanged from the previous month (Figure 1). Year-to-date, the FNB HPI has averaged 0.8%, down from 1.8% in 2023 and 4.7% in 2022 in the same period. This highlights how lower disposable incomes and a higher cost of credit have adversely impacted demand, and subsequently, house prices. Notably, the slowing trend appears to have stabilised since May and is expected to show a clearer upward trend once interest rates begin to decline.

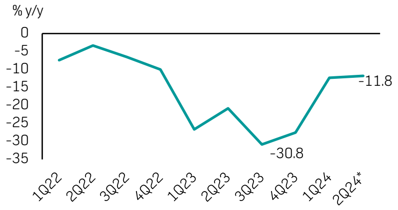
Figure 1: FNB HPI



**Note We have refined our HPI calculation process by, among other things, enhancing the linkage between internal valuations data and external service provider data using text analysis techniques. These improvements have led to a larger sample size.*

Source: FNB Economics

Figure 2: Mortgage volumes



**2Q24 volumes are still trickling in*

Source: FNB Economics from Deeds data

Economists

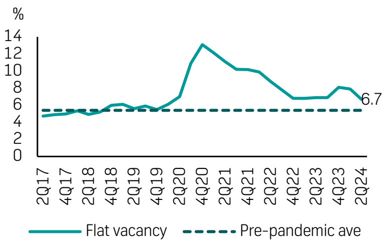
Siphamandla Mkhwanazi
Koketso Mano

Statistician
Sameel Ambaram

Contact us:

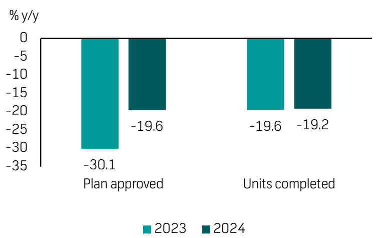
Website: www.fnb.co.za/economics-commentary
Email: Siphamandla.Mkhwanazi@fnb.co.za
Tel: 087 312 3280

Figure 3: Vacancy rates for flat



Source: Rode & Associates, FNB Economics

Figure 4: Volume of new housing units (YTD)



Source: Stats SA, FNB Economics

In the mortgage market, growth in mortgage extensions slowed to 2.5% in July from 2.7% in June, reflecting subdued demand and house prices, as well as stringent lending criteria. The Deeds data suggests that while loan-to-price (LTP) ratios have stabilised, mortgage volumes are still declining, albeit at a slower pace, due to reduced demand as deteriorating affordability results in lower approval rates. Year-to-date (1H24), LTP has averaged 94.5%, slightly below the 94.7% average in the same period last year. Volumes, however, have declined by 12.0% in the same period, having troughed at around -30% in 2H23 (Figure 2).

The rental market exhibits mixed trends. Rental inflation fell slightly to 3.2% in the second quarter of 2024 from 3.3% previously. This reflects weak demand and landlords' diminished pricing power in a market with abundant options. However, Rode's residential survey data indicates that vacancy rates for flats have decreased in 2Q24, to 6.7% from 7.9% in the previous quarter. Although this represents an improvement, it remains higher than pre-pandemic levels, where vacancy rates averaged 5.4%, suggesting a relative surplus of rental properties (Figure 3). While high interest rates may favour renting over buying, this data suggests that this has not been sufficient to absorb the excess supply, potentially due to a sluggish labour market. In addition, our 2Q24 Estate Agent Survey results suggest that most households that are selling due to financial pressure would rather downscale than go back into the rental market.

On the supply side, the volume of new-build housing stock is declining, mirroring the subdued demand. Year-to-date (January to June), the supply of new stock decreased by 19.2% compared to the same period last year (Figure 4). This downturn is particularly pronounced in the <80 square metre category, which primarily represents affordable housing. Furthermore, the pipeline supply is also shrinking, as evidenced by a 19.6% year-to-date decline in the volume of approved building plans, following a 30.1% decline in the same period last year. These developments reflect the weak demand environment and indicate that building activity will likely remain low until a significant increase in overall housing demand and selling prices is observed.

Conclusion

Overall, while the housing market continues to grapple with challenges posed by high interest rates and a sluggish job market, the forecast for a more benign inflation environment and an impending rate cutting cycle offers a glimmer of hope for a gradual recovery. However, the extent and timing of this recovery will depend on various factors, including the trajectory of inflation, economic growth, and broader global conditions.

Property barometer

Table 1: FNB SA Economic Forecast

Economic Indicator	2023	2024f	2025f	2026f
Real GDP %y/y	0.7	1.0	1.8	1.9
CPI (average) %y/y	6	4.6	4.3	4.6
Rental inflation	2.6	3.2	3.3	3.0
Repo rate (year end) %p.a.	8.25	7.75	7.5	7.5
FNB HPI (average) %y/y	1.5	1	2.6	3.6
Mortgage volumes %y/y	-26.5	-5.7	10.2	2.3

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	3.8	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				

Property barometer

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.