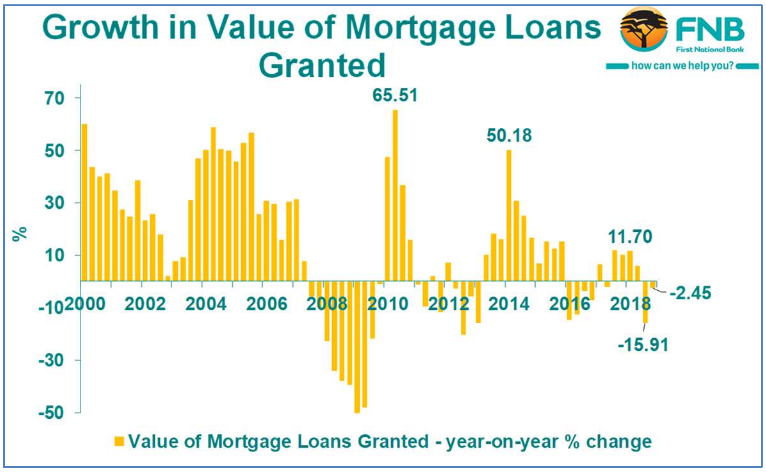
PROPERTY INSIGHTS – NEW MORTGAGE LENDING

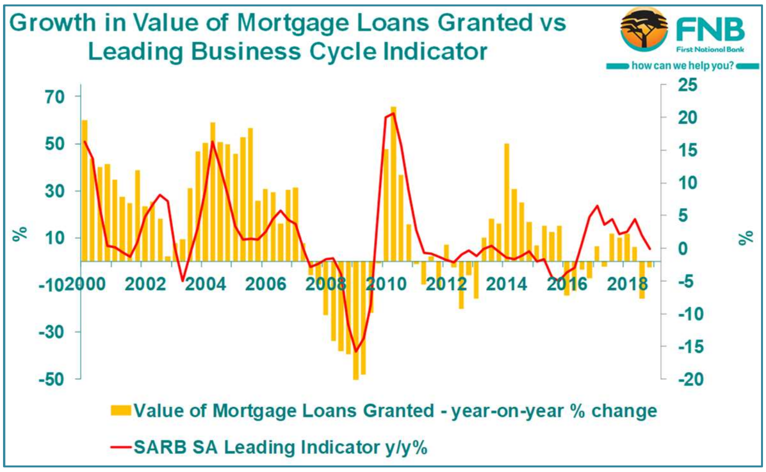
New Mortgage Lending declined less in the 4th quarter of 2018 than the prior quarter, but remained in the doldrums heading towards 2019, and leading indicators suggest that early-2019 remained a weak environment.

25 March 2019

4th Quarter 2018 SARB New Mortgage Lending data, released in the March SARB Quarterly Bulletin, showed a further year-on-year decline in the Value of New Mortgage Loans Granted, but it was a decline of a lesser magnitude than that of the prior quarter.



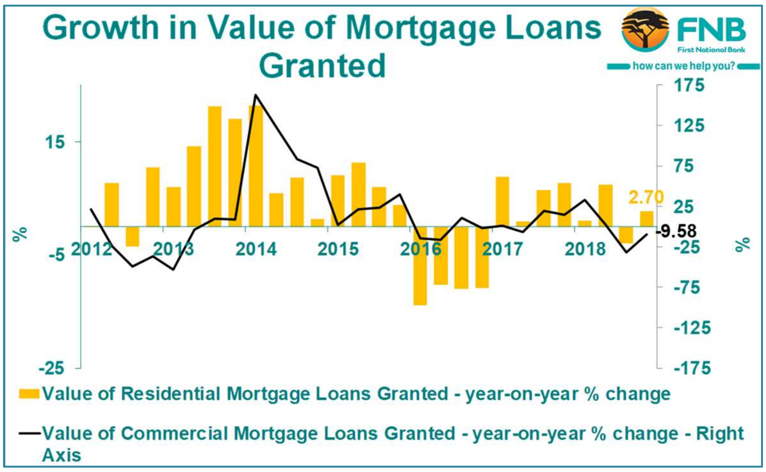
The March 2019 SARB (Reserve Bank) Quarterly Bulletin showed the value of new mortgage loans granted (Residential, Commercial and Farms) to have declined at a year-on-year rate of -2.45% in the 4th quarter of 2018, after a -15.91% decline in the 3rd quarter.



With New Mortgage Lending often being a more "leading" part of the economy, we see that its cyclical turning points are traditionally often in line with or close to, timing-wise, the SARB Leading Business Cycle Indicator.

This Leading Indicator had seen its "mini-recovery" in year-on-year growth peak at 6.54% as at the start of 2017, where-after it has broadly slowed to a -0.06%b decline in the 4th quarter of 2018. The leading business cycle indicator had thus been suggesting that we were due for slower new mortgage lending growth after that mildly improved period in late-2017/early-2018, and that proved to be more-or-less the case in the 2nd half of 2018.

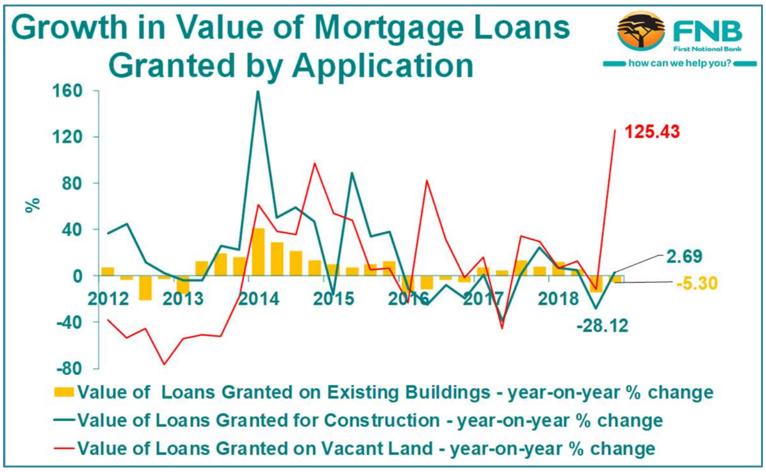
COMMERCIAL MORTGAGE LOANS WERE THE MILDLY BIGGER GROWTH DRAG



The large Residential Mortgage sub-component recovered slightly in the final quarter of 2018 to record slow year-on-year growth of 2.7% in the value of new loans granted. This is still negative in real terms, were one to adjust for general economy-wide inflation.

But it is slightly stronger than the Commercial Mortgage component, which remained in negative territory to the tune of -9.58% year-on-year, albeit less negative than the -32% decline of the prior quarter.

MORTGAGES BY APPLICATION



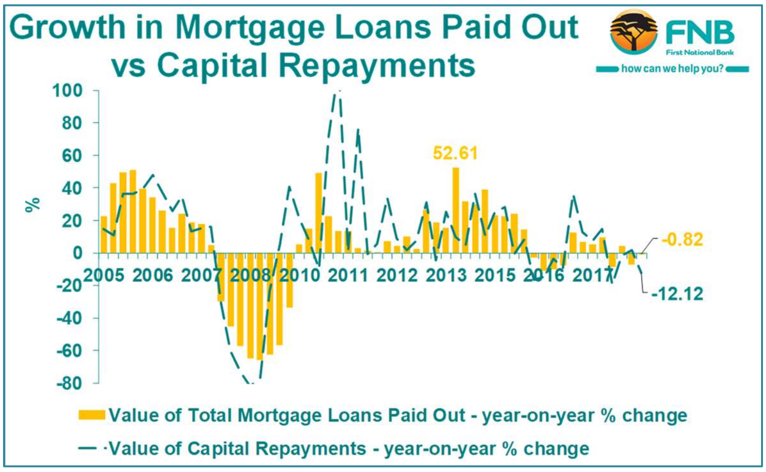
We also view New Mortgage Loans Granted "By Application", i.e. on Existing Buildings vs Vacant Land vs for New Construction.

Growth in Mortgage Loans Granted for Vacant Land found itself "spiking" to a positive 125.43% year-on-year. However, we would caution against reading too much into this, as this category makes up only a tiny 3.3% of total grants, and is thus subject to huge volatility.

With new building planning in the doldrums, and economy-wide business confidence weak, we are not yet convinced that this 4th quarter surge represents any sustainable demand strengthening in the vacant land market.

The 2 large applications remain in the doldrums. The value of new mortgages granted for construction purposes showed slight positive growth to the tune of +2.69%, after a sharp -28.12% drop in the prior quarter. By comparison, new mortgage loans granted for existing buildings declined year-on-year by -5.3% in the 4th quarter, a lesser magnitude of decline compared to –14.4% in the previous quarter.

NEW LOANS PAID OUT VS CAPITAL REPAYMENTS



New Mortgage Loans Paid Out also saw a 4th quarter decline, from a decline of -7.25% year-on-year in the 3rd quarter of 2018 to a lesser -0.8%, following the trend in new loans granted..

The trend in the Value of Capital Repayments, which would be driven significantly by loan settlement upon sale of a property, was also in the doldrums, with a decline of -12.12% year-on-year in the final quarter of 2018.

CONCLUSION

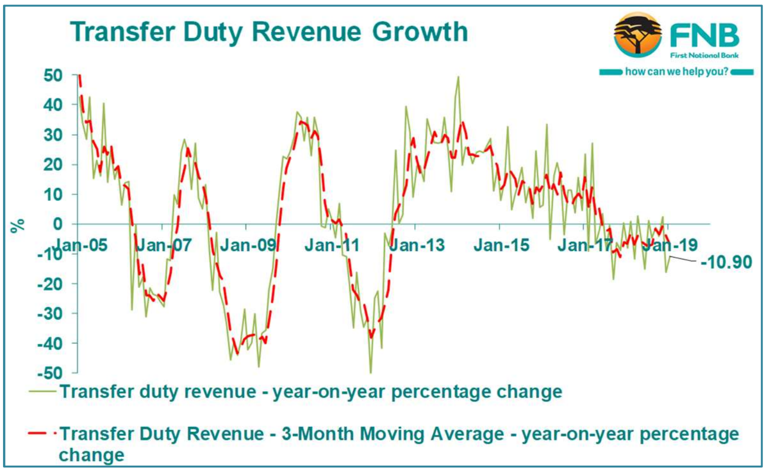
After something of a "mini-recovery" in new mortgage loans granted through 2017 to early-2018, the 2nd half of 2018 proved to be a weak period for new mortgage lending. However, the 4th quarter did show a little less weakening than the 3rd quarter of 2018.

The Commercial Mortgage Sector was more of a drag on the overall Mortgage Market than the Residential Sector, although the Residential Sector's mildly positive growth remained a weak number.

By Application, we read little into the vacant land new mortgage spike, that category being very small and potentially volatile as a result. The reality is that new mortgage growth for Construction of Buildings continued to reflect weak levels of new building planning.

The start of 2019 was likely to have seen weakness in new mortgage lending growth persisting, if the SARB Leading Business Cycle Indicator is anything to go by. The Leading Indicator continued to decline in the final quarter of 2018, while the more up to date OECD version of the South African Leading Indicator continued to decline into January 2019. Given a broad correlation between the leading indicators and new mortgage lending, this would suggest new lending weakness persisting in the near term, and the 4th quarter diminishing in the pace of the new lending decline not necessarily followed up by any meaningful strengthening in the 1st half of this year..

Given that we do not anticipate any interest rate movement in the 1st half of 2019, it is up to general sentiment in the economy along with actual economic growth performance to drive new mortgage demand. With the FNB-BER Business Confidence Index at a low level of 28 (on a scale of 0 to 10), and the leading business cycle indicators in decline, near term economic performance looks set to remain weak.



Perhaps the most up to date high frequency indicator of market transaction levels is the SARS transfer duty revenue number, which showed -10.9% year-on-year decline in value in January. While this includes cash transactions too, it probably gives a reasonable idea of broad market weakness that extends to the mortgage lending component too.

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