PROPERTY BAROMETER – Housing Market Transaction Volume Trends

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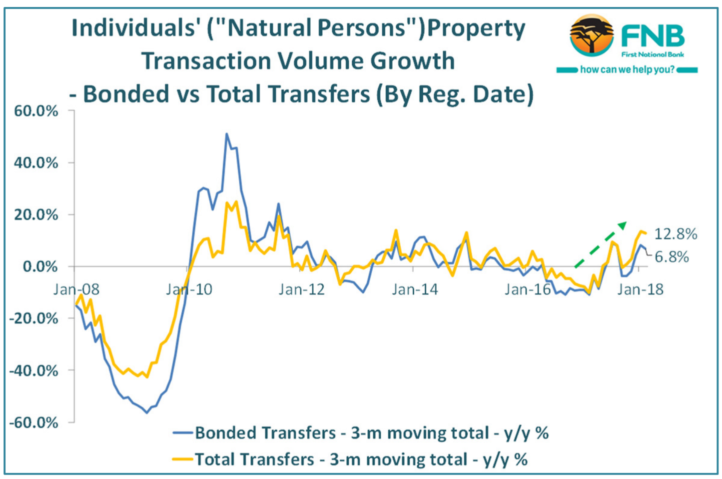
Transaction volume growth in the housing market started 2018 mildly improved, and mortgage lenders are expected to experience positive growth in volumes in the bonded segment of the market in 2018 as a whole after a slight decline in 2017. But growth in the near term may get slightly worse before it gets better.

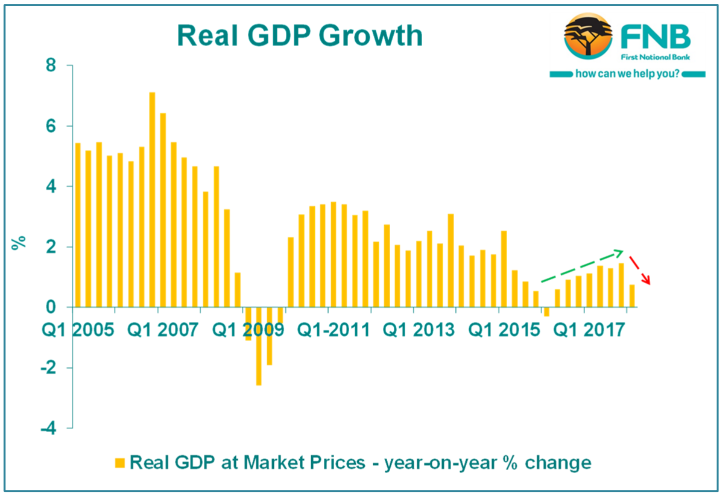
6 June 2018

HOUSING MARKET TRANSACTION VOLUME GROWTH PERFORMANCE

Estimated housing market transaction volume growth started 2018 improved on 2017 rates, but disappointing economic growth at the start of 2017, along with what FNB's Estate Agent Survey was saying late last year, suggests that transaction growth may get weaker before it gets better in 2018.

Using deeds data for transactions by individuals ("natural persons") as a proxy for residential transaction trends, we see that 2018 got off to a better start in terms of transaction growth than did 2017.



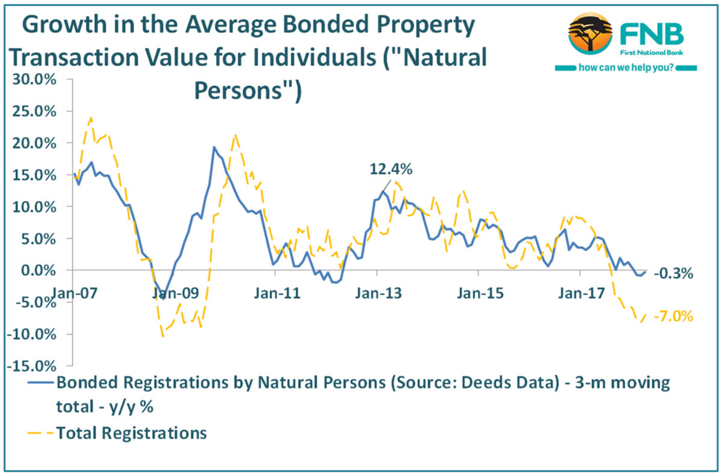


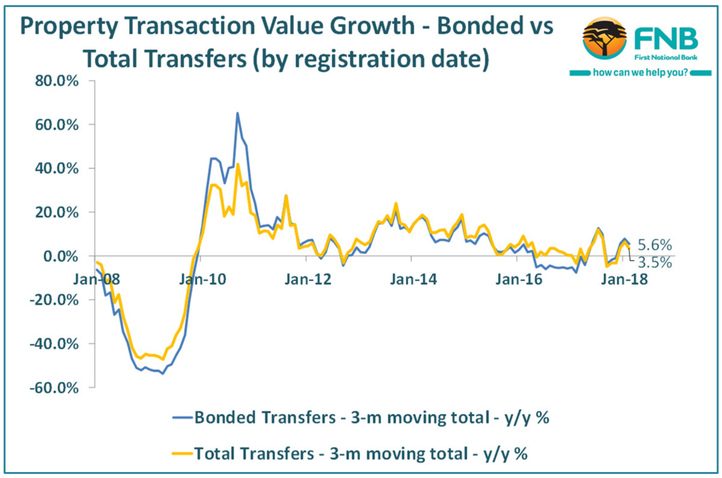
Total transactions registered by individuals rose by 12.8% year-on-year for the 3 months to February 2018 (we use a 3-month moving average for smoothing purposes), while the volume of transactions on which a bond was registered also grew, albeit by a lesser 6.8% year-on-year for the same 3 months.

This is a noticeable improvement on 12 months prior, where total volume declined by -10.1% year-on-year for the 3 months to February 2017, and bonded transactions by -10.8%, having been in decline for much of 2016 too.

This mild growth strengthening through much of 2017 and into 2018 is broadly in line with the 2017 trend in economic growth, which had showed a gradual improvement through 2016 and 2017, from a -0.3% year-on-year contraction at the beginning of 2016, to +1.1% positive growth in the 1st quarter of 2017, and further to 1.5% by the final quarter of 2017.

However, a noticeable slowing in economic growth to 0.8% year-on-year in the 1st quarter of 2018 may suggest that new mortgage lending will get worse in the near term before it gets better.





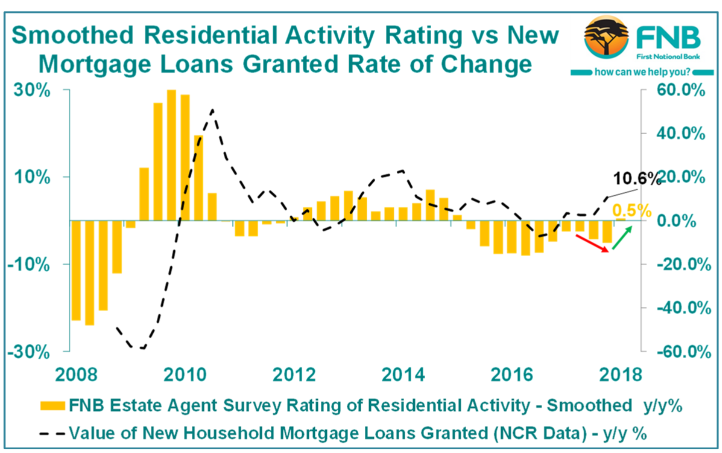
Growth in the value of property transactions by individuals has been constrained to slower rates than volume growth recently, due to declines in the average value of transactions as the lower end outperforms the higher priced end of the property market.

For the 3 months to February, the average value per transaction declined by -7.8% year-on-year, and was still in decline by -7% as at the 3 months to April. The bonded transactions component saw average value declining by -0.7% year-on-year for the 3 months to February and still in decline to the tune of -0.3% for the 3 months to April. A lack of average value growth was thus a constraint on sales value growth for mortgage lenders early in 2018.

This meant that the growth in total value of individual transactions for the 3 months to February was constrained to lower rates than volume growth, 5.6% year-on-year in the case of all transactions and 3.5% in the case of bonded transactions.

NEW LENDING GROWTH MAY GET SLIGHTLY WEAKER BEFORE IT GETS BETTER AGAIN, BUT 2018 AS A WHOLE SHOULD BE STRONGER THAN 2017

The disappointing decline in economic growth in the 1st quarter of 2018 is one indicator that suggests that transaction volume growth as well as new mortgage lending growth may slow in the near term before it gets better. A second indicator is our FNB Estate Agent Survey Residential Activity Rating, where agents surveyed rate activity levels in their areas (scale of 1 to 10). The direction of the year-on-year rate of change in this indicator can lead the direction of growth in new mortgage lending by a few quarters, and this Activity rating saw its rate of year-on-year decline picking up downward speed in the 2nd half of 2017, before improving only in the 1st quarter of 2018.



That would suggest that new mortgage lending growth has some slowing in the near term before it gets better again, given that its direction normally lags the direction in the Residential Activity Rating by a few quarters.

Therefore, despite bonded transaction volume growth entering 2018 at rates in excess of 6%, we don't pencil in further strengthening from those levels in the rest of 2018. Rather, we forecast 5.5% growth for 2018 as a whole, which although slower than early-2018 rates will still reflect an improvement on the -0.2% decline in 2017.

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