October 2021

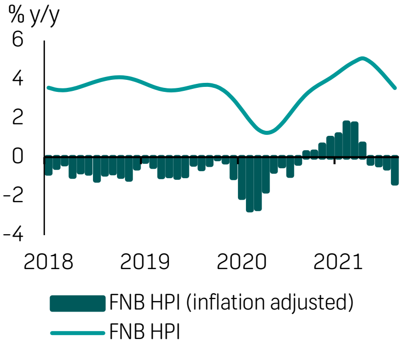
Property Barometer.

3.0%
y/y FNB HPI

49.06
market strength index

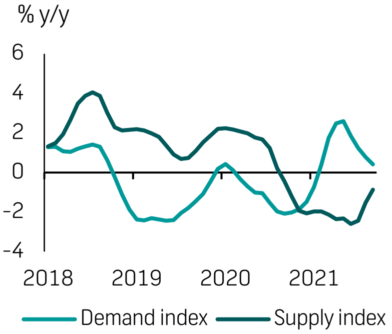
8.6
weeks on market

Figure 1: FNB HPI



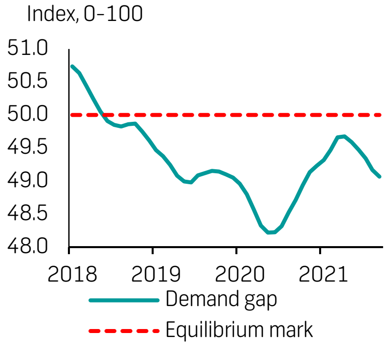
Source: FNB Economics

Figure 2: FNB Market strength indices – Growth in demand may have peaked, and supply ticking up



Source: FNB Economics

Figure 3: Widening demand gap



Source: FNB Economics

Key themes

- Market strength indicators continue to show moderating demand, following a strong rebound in 2H20 and into 2021. However, these are still above 2019 levels, reflecting the positive effect of lower interest rates on market activity and the changing housing needs due to the pandemic (greater adoption of working from home and homeschooling).
- Despite slowing volumes growth, the value of mortgage extension continues to grow at a faster pace supported by demand for bigger loans, reflecting a shift towards higher price brackets (or bigger properties).
- Weaker-than-expected 2Q21 labour market data, combined with the potential adverse effects of the recent unrest on employment prospects for 3Q21, suggests that longer-term demand fundamentals will take longer to recover to pre-pandemic levels. However, we note a potential upside on non-wage income, especially dividend income, which has boosted income growth for affluent households.

Annual house price growth trends lower in September

The slowing trend in house price growth continued in September, with the FNB House Price Index decelerating to 3.0% y/y for August, from 3.6% in August (revised up from 2.6%[1]). This means house price growth averaged 3.5% in 3Q21, down from a peak of 4.8% in 2Q21. The slowing pace of price growth coincides with the weakening market strength index (widening demand gap), as demand growth continues to slow relative to supply[2] (Figures 2 and 3). Furthermore, the activity of estate agents also moderated further in 3Q21, as shown in the latest FNB Estate Agents Survey. Slowing activity was seen across price segments and regions, but was more noticeable in the KZN region following the social unrest that destroyed property and infrastructure (see below for more). Nevertheless, all these data points still rate above 2019 levels, suggesting that market activity is still benefiting from lower interest rates, albeit to a lessening extent, as well as the pandemic-induced shifts in consumer behaviour, which leant in favour of homeownership.

Estate Agents Survey results show riots had minor impact on the KZN property market

Using the 3Q21 FNB Estate Agents Survey results, we consider four market activity and sentiment indicators to assess the first-round impact of riots, particularly in the KZN area.

Market activity: At a national level, agents' perception of activity peaked at 6.9 (out of 10)

[1] The unusually large revisions are due to longer-than-usual administrative lags in the data in the past two months.

[2] These indicators are derived from the internal property valuer's database.

Economist

Siphamandla Mkhwanazi

Statisticians
Mandisa Zokufa
Kamenee Govender

Contact us:

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

in 4Q20 and descended to 6.3 in 3Q21. The deceleration is across most price segments[3] and regions. However, the decline was more noticeable in the KZN region, where activity recorded 5.5 from 7.2 in the previous quarter, or a 23.6% q/q decline (vs a 5% q/q decline at national level).

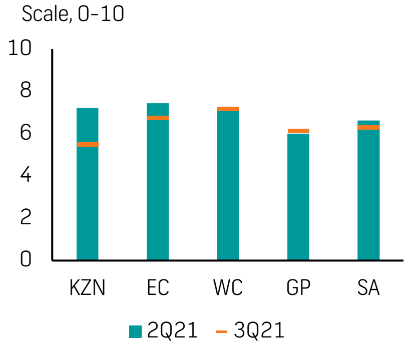
Time on the market: Average time properties spent on the market for sale lengthened for the first time in 12 months, from 8 weeks to 8 weeks and 6 days, further signalling cooling home buying activity. Once again, the cooling market activity was seen across most price segments and all regions. Compared to the previous quarter, time on the market lengthened the most in the KZN region, by approximately 2 weeks versus the national average of just 6 days.

Market sentiment: In line with softer market activity, estate agents' sentiment – as measured by the proportion of agents who are satisfied with prevailing market conditions – pulled back across most price segments and regions. Nevertheless, the indicator remains upbeat, particularly in the Western Cape, presumably in line with activity that is still above pre-pandemic levels and on anticipation that unrest in KZN would benefit the Western Cape. The decline was more visible in KZN, with 51% satisfied with prevailing market conditions, compared to 72% in the previous quarter and the national average of 74% in 3Q21.

Reasons for selling: The reason for selling matrix remained broadly unchanged from the previous quarter, and shows that sales are still elevated due to financial pressure as well as slowing trend of emigration-related sales. However, 3Q21 data might be signalling that emigration sales have bottomed and starting to rise in some segments. Notably, the KZN region saw an increase in selling due to security reasons, at 11% versus 8% in the previous quarter and 7% for the national average. It will be interesting to see whether this is a sustained trend or rather a knee-jerk reaction following the riots.

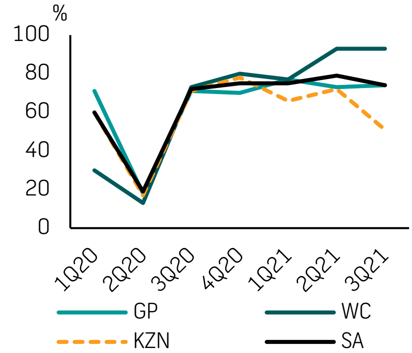
In conclusion, the FNB Estate Agents Survey shows some impact on the KZN region, but relatively small in the greater scheme of things. However, there may still be lingering longer-term effects, particularly on buyer and investor sentiment.

Figure 4: Moderation in activity more noticeable in KZN in 3Q21



Source: FNB Economics

Figure 5: Sentiment – % agents satisfied with prevailing market conditions



Source: FNB Economics

Outlook

We have consistently argued that property prices have been unusually slow to adjust to the weak consumer fundamentals. We explained that support has come from unprecedented factors, such as historically low interest rates; the nature of the crisis, which incentivised property ownership; the concerted response from lenders that smoothed the impact of severe job losses on housing markets (e.g. through payment holidays and loan restructuring); as well as the relative abundance of credit despite higher unemployment. However, recent data shows that market volumes may have peaked and that market strength weakening (i.e. the demand gap is widening). Nevertheless, activity is still enjoying support from both cyclical drivers, such as low interest rates, and secular factors, such as changes in human behaviour.

Thematically, the recent deceleration in house price growth is in line with our expectations – reflecting waning interest rate induced demand and swelling labour market pressures. Demand driven by consumer shifts from renting to owning may also have peaked. This is reflected in the stabilising flat vacancy rates and bottoming rental inflation. These shifts played a vital role in supporting home buying activity in 1H20 and into 2021, mostly in middle-priced segments. With this demand losing momentum it is not surprising that the deceleration in house prices is more pronounced in middle-priced segments. Nevertheless, we still expect a better out-turn in annual house price growth in 2021, reflecting comparatively stronger demand and a brighter GDP growth outlook.

[3] The R1.6m-R2.6m and R3.6m+ segments recorded higher activity and shorter time on the market in 3Q21.

Table 1: Reasons for selling – 3Q21

	3Q21	<R750k	R750k-R1.6m	R1.6m-R2.6m	R2.6m-R3.6m	>R3.6m
Lifestyle:						
Downscaling due to financial pressure	19%	20%	24%	18%	13%	16%
Upgrading	14%	12%	16%	14%	16%	12%
Downscaling with life-stage	23%	19%	20%	27%	26%	25%
Other:						
Moving for safety and security reasons	7%	9%	8%	5%	4%	6%
Emigrating	8%	3%	5%	9%	13%	14%
Relocating	11%	8%	10%	12%	12%	13%
Change in family structure	11%	11%	10%	11%	15%	11%
Moving to be closer to work/amenities	8%	19%	7%	4%	1%	4%

Source: FNB Economics

Table 2: Reasons for selling by region – 3Q21

	3Q21	GP	EC	WC	KZN
Lifestyle:					
Downscaling due to financial pressure	19%	19%	20%	21%	16%
Upgrading	14%	16%	10%	12%	11%
Downscaling with life-stage	23%	23%	30%	23%	19%
Other:					
Moving for safety and security reasons	7%	7%	5%	5%	11%
Emigrating	8%	8%	5%	9%	8%
Relocating	11%	12%	9%	10%	7%
Change in family structure	11%	11%	7%	11%	13%
Moving to be closer to work/amenities	8%	4%	13%	9%	14%

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	4.0	3.6	3.0			

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 from the 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 previous transaction 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.