Property barometer

24 October 2023

0.6% ↓
y/y FNB HPI

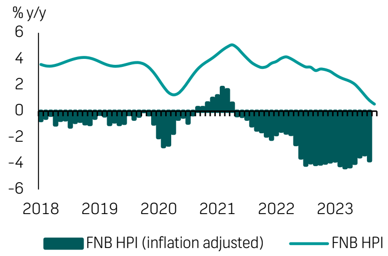
50.50 ↑
Market strength index

11 weeks and five days ↓
Time on market

Key themes:

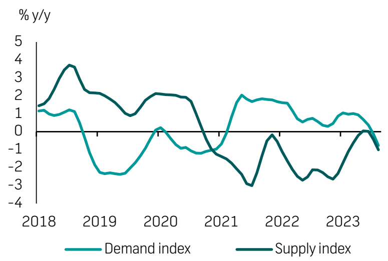
- We expect that interest rates have reached their peak, with a measured cutting cycle coming into view in the latter half of 2024. However, the short-term prospects for this forecast carry an upside risk, particularly if upward pressure on food and fuel prices intensifies, and government fiscal position deteriorates.
- In line with deteriorating affordability, buying activity continues to decline across the spectrum, with volumes now at pre-pandemic levels. Our indicators suggest widespread downscaling in the market, supporting buying activity in lower-priced brackets.
- Similarly, the declining trend in vacancy rates in the rental market may be stalling. Incoming data suggests that vacancy rates remain above pre-pandemic levels, reflecting an incomplete recovery.

Figure 1: FNB HPI



Source: FNB Economics

Figure 2: Market strength indices



Source: FNB Economics

House price growth slows in September

The FNB House Price Index growth slowed to 0.6% y/y in September, down from 0.8% in August (Figure 1). This takes average house price growth to 0.9% in 3Q23, down from 2.1% in 2Q23. Our internally developed market strength index continues to show declining levels of demand, while the supply of properties for sale also declined in August (Figure 2). Feedback from our latest Estate Agents Survey suggests that two-thirds (67%) of listed properties now take three months or more to sell, up from 56% in 2Q23. As such, we expect a low house price growth trajectory to continue in the next few months, until inflation and borrowing costs ease more meaningfully in 2H24. Year-to-date (January to August), house price appreciation averages 1.8%, versus 3.5% in 2022 and our prediction of a 1.7% average for 2023.

Estate Agents Survey results for 3Q23: Optimism predicated on peaking interest rates

Market activity moved sideways and recorded a rating of 5.1 (out of 10) in 3Q23. At this level, agent activity rating remains below the long-term average of 5.9 (since the inception of the survey in 2004), and considerably (28.2%) lower than the most recent peak of 7.1 recorded in 4Q20. Indeed, year-to-date (January to June), National Credit Regulator (NCR) data shows that the volume of new mortgage

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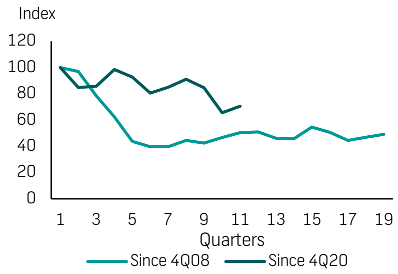
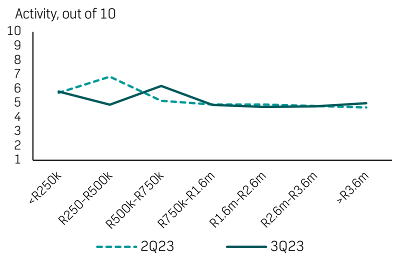
Figure 3: Mortgage volumes: GFC vs Current slump



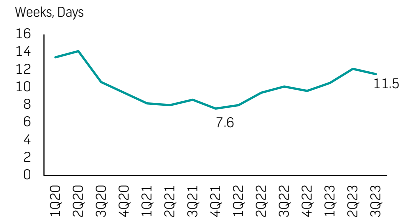
Source: NCR, FNB Economics

Figure 4: EA survey: Market activity by price bracket



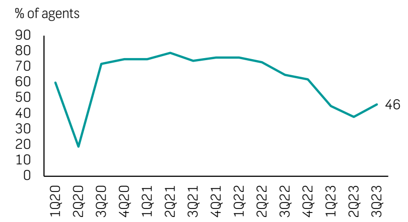
Source: FNB Economics

Figure 5: EA survey: Time on market



Source: FNB Economics

Figure 6: EA survey: Market sentiment



Source: FNB Economics

transactions has declined by 18%. Compared to 4Q21, at the onset of the current interest rate hiking cycle, mortgage transactions have declined by approximately 24% (see our mortgage market analysis here). Nevertheless, the extent of the decline in activity has been relatively shallow compared to the global financial crisis period (Figure 3). By region, the Western Cape recorded higher activity at 5.9, still lower than last quarter's 6.2 rating. Activity in Gauteng saw a further decline in 3Q23, from 4.5 to 4.3, the lowest rating across all the regions. In KwaZulu-Natal, activity was unchanged at 5.2, while the Eastern Cape slipped to 5.4 from 5.7 in 2Q23. By price, the R500k-R750k bracket was the best performer, with a rating of 6.2, down from 6.9 previously (Figure 4). Higher activity in lower priced segments is supported by the downscaling trend amid heightened financial pressure, with homeowners across income groups searching for cheaper alternatives.

Correspondingly, agent expectations for the housing market showed some optimism in 3Q23, with 50% of respondents expecting an increase in activity in the next three months, compared to 17% in 2Q23. Factors cited for this optimism include expectations that interest rates have peaked as well as the customary increase in activity during the summer months. Less severe load-shedding in recent months has also boosted sentiment in the market.

The results suggest that the **average time** that properties are on the market for sale has shortened marginally to 11 weeks and five days (82 days), compared to 85 days 2Q23. The slight improvement was likely due to less severe load-shedding disruptions in the quarter. Overall, agents estimate that two-thirds (67%) of properties on the market for sale now take three months or longer to sell, an increase from a third (33%) in 1Q22. While these factors would have weighed on estate agent sentiment in 3Q23, this was counteracted by better-than-expected load-shedding disruptions as well as expectations of a peak in interest rates. As a result, the proportion of estate agents who are satisfied with current market conditions, increased from 38% from 46% in 3Q23, and still reflects broadly weak market enthusiasm (Figure 6).

Reasons for selling: financial pressure-induced sales remain elevated at 23% of total volumes in 3Q23, relatively unchanged from the previous quarter but higher than the historical average of 18% since 4Q07. As expected, these are disproportionately higher in the affordable market segment, with an estimated 30% of sales attributed to financial pressure. This reflects the impact of the sharp increase in debt servicing costs, which should have a more pronounced impact on lower-income households. Sales attributed to relocation within SA appear to be plateauing, from 14% in 3Q22 to 12% in 3Q23, following an increase from 8% in 1Q20. Incidents of upgrading have slowed considerably since the beginning of the tightening cycle, from 15% in 4Q21 to 9% in 3Q23. Emigration-related sales were steady at 9%, significantly lower than the peak of 18% observed in 2019. However, these remain elevated in higher-priced segments, particularly the >R3.6m bracket (Figure 7). By age, the 35-44 group make up 63% of those believed to be selling due to emigration.

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Figure 6: EA survey: Reasons for selling

Reason for selling (% of total sales)	Aggregate	<R250k	R250k-R500k	R500k-R750k	R750k-R1.6m	R1.6m-R2.6m	R2.6m-R3.6m	>R3.6m
Downscaling due to financial pressure	22.8	26.5	29.8	33.3	21.1	23.5	17.5	17.4
Downscaling with lifestage	22.34	12.0	12.3	13.3	21.3	25.6	30.6	28.8
Emigrating	9.1	6.1	4.3	3.1	5.6	11.0	12.7	16.9
Relocating	11.68	8.3	8.9	6.8	14.3	12.4	14.6	10.0
Upgrading	8.52	12.0	14.1	9.9	9.8	5.5	5.8	8.1
Moving for safety and security reasons	7.24	16.1	9.9	11.6	8.7	3.8	2.5	3.8
Change in family structure	11.74	8.6	6.9	9.6	12.6	13.0	12.7	12.9
Moving to be closer to work or amenities	6.61	10.4	13.9	12.6	6.7	5.2	3.7	2.1

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	4.1	3.7	3.5	3.3	3.4	3.7
2022	3.8	4.0	4.2	4.0	3.8	3.6	3.4	3.4	3.1	3.2	3.2	3.1
2023	2.8	2.6	2.5	2.3	2.1	1.7	1.2	0.8	0.6			

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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.