Property barometer

17 January 2024

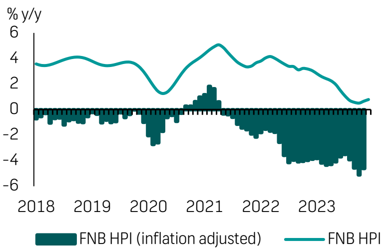
0.8% ↑	51.09 ↑	11 weeks and four days ↓
y/y FNB HPI	Market strength index	Time on market

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. Nevertheless, persistent risks including heightened geopolitical and adverse weather patterns complicate the deceleration trend in inflation and could prolong the lift in inflation expectations away from target. This could cause interest rates to remain high for longer than we currently anticipate, and market weakness would be protracted.
- Positively, surveyed data suggests that home buying activity is levelling out, while our house price index growth is now showing signs of a mild recovery from depressed levels.
- Our projections of slightly lower interest rates, moderately better growth outcomes and continued employment gains should help support a modest lift in demand for property, and consequently property prices from 2H24.

House price growth levelled out in 4Q23, signs of a faint recovery on the horizon

Figure 1: FNB HPI



Source: FNB Economics

The FNB House Price Index growth averaged 0.8% y/y in December, marginally higher than the 0.7% in November (revised from 0.5%), and a low of 0.5% in October (Figure 1). This suggests that annual house price growth averaged 1.5% in 2023, in line with our expectations. The marginal uptick in the last three months of 2023 signals that price growth may have reached its trough. That said, we expect the weak house price growth trajectory to continue for a little while, amid heightened uncertainty. In addition to the potential impact of the election cycle and a possibility of further fiscal slippage on currency stability, the heightened geopolitical tensions, biosecurity risks as well as adverse weather patterns complicate the deceleration trend in inflation and could prolong the lift in inflation expectations away from target. This could cause interest rates to remain high for longer than we currently anticipate and extend prevailing market weakness.

Nevertheless, our base case view suggests that the gradual decline in inflation and borrowing costs from 2H24, combined with some employment gains, should

Economists

Siphamandla Mkhwanazi
Koketso Mano

Statistician
Sameel Ambaram

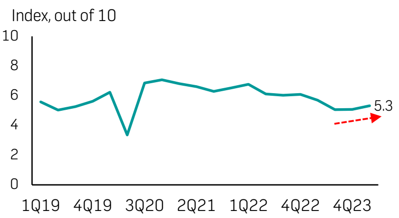
Contact us:

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

modestly stimulate demand in the interest-rate sensitive segments over the medium term, which would support a moderate uptrend in house prices.

Estate Agents Survey results for 4Q23: Market activity ended the year on a better footing

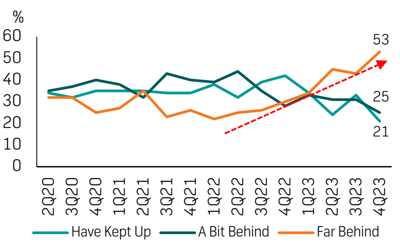
Figure 2: Estate agents' activity rating



Source: FNB Economics

Market activity ticked up marginally to a rating of 5.3 in 4Q23, from 5.1 (out of 10) in 3Q23 (Figure 2). The agents' activity rating trend suggests that home buying activity levelled out between 2Q23 and 3Q23. This trend is reflected in the house price growth trajectory depicted above. Nevertheless, the 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. By region, the improvement in activity was relatively broad-based across regions covered by the survey, apart from the Eastern Cape which saw its activity slip further to 5.0, from 5.4 in the previous quarter. The Western Cape once again recorded the highest activity at 6.0, marginally better than last quarter's 5.9 rating. Notably, the pace of increase in activity is decelerating - alongside the semi-gration trend (see "reasons for selling" below). Gauteng recovered to 5.0, from 4.3, while KwaZulu-Natal climbed higher to 5.7, from 5.2 in the previous quarter.

Figure 3: Agents' perceptions about income levels relative to prices



Source: FNB Economics

Nevertheless, forward-looking indicators suggest that the increase in activity might be short-lived. Estate agent's short-term (three months ahead) expectations somewhat backpedalled, with only 31% of respondents expecting activity to increase in 1Q24, down from 50% in 3Q23. The relative despondency mainly emanates from agents focusing on the affordable market. While part of this is due to seasonality, concerns around affordability, the cost of living, and lack of job security were cited as main drivers for the relative pessimism. Indeed, 53% of surveyed agents stated that income levels are "far behind" house prices, compared to 43% previously, and just 30% in 4Q22 at the start of interest rate tightening cycle (Figure 3). In addition, the normalising semi-gration trend may also have influenced agents' outlook on the Western Cape market, weighing on overall market expectations.

The **average time** that properties are on the market for sale was largely unchanged, at 11 weeks and four days (81 days), marginally shorter than 82 days in 3Q23. According to agents, 63% of listed properties take three months or longer to sell, slightly lower than the 67% estimated in 3Q23. Taken as a whole, these market developments somewhat lifted agents' mood in 4Q23. The proportion of estate agents who are satisfied with current market conditions increased marginally from 46% in 3Q23 to 49% in 4Q23, still reflective of broadly weak market enthusiasm. Most notably, market satisfaction declined in the Eastern and Western Cape, as well as in affluent markets (>R3.6m property values).

Reasons for selling: financial pressure-induced sales remained elevated at 25% of total volumes in 4Q23 (Figure 4), still higher than the historical average of 18% since 4Q07. As expected, these are disproportionately higher in the affordable market segment, where a third of volume sales are thought to be financial pressure related. This is consistent with the sharp increase in living and debt servicing costs, which should have a more pronounced impact on lower-income households. Sales attributed to relocation within SA (semi-gration) have continued to normalise, estimated at 11% of volume sales, from 12% previously and a peak of 14% in 3Q22. Nevertheless, these are still above the long-term average of 9% since the inception of the survey question in 4Q07. Incidents of upgrading have also slowed considerably since the beginning of the tightening cycle, from 15% in 4Q21 to 10% in 4Q23. Emigration-related sales were steady at 8%, significantly lower than the peak of 18% observed in 2019 but in line with the long-term average since 4Q07.

Figure 4: Most common reasons for selling: 4Q23

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	24.7	27.0	53.6	32.6	24.9	21.1	19.8	19.2
Downscaling with lifestage	21.4	12.4	2.9	15.2	20.2	26.6	28.4	26.7
Emigrating	8.2	3.8	3.6	5.7	6.9	9.1	11.6	12.5
Relocating	10.9	8.4	3.6	8.5	11.8	12.8	9.8	12.8
Upgrading	10.1	13.7	13.6	10.6	10.9	8.3	5.8	10.5
Moving for safety and security reasons	7.3	12.5	10.0	10.9	8.0	4.4	5.4	4.3
Change in family structure	10.8	7.3	7.9	7.1	10.7	13.6	13.6	11.2
Moving to be closer to work or amenities	6.7	15.0	5.0	9.4	6.6	4.1	5.6	2.9

Source: FNB Economics

Property barometer

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	2.4	2.3	2.0	1.5	1.1	0.7	0.6	0.5	0.7	0.8

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.