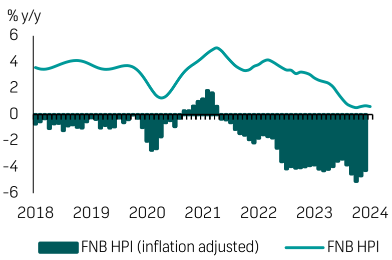
Property barometer

12 February 2024

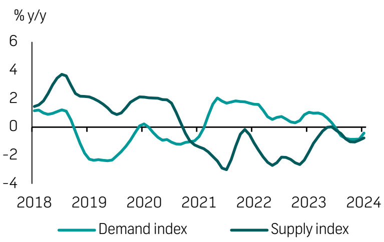
0.6% ↔	50.80 ↑	11 weeks and four days ↓
y/y FNB HPI	Market strength index	Time on market

Figure 1: FNB HPI



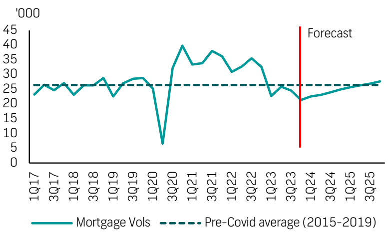
Source: FNB Economics

Figure 2: Market Strength Indices



Source: FNB Economics

Figure 3: Mortgage volumes: Forecast



Source: FNB Economics

House price growth moved sideways in January

The FNB House Price Index growth averaged 0.6% y/y in January, unchanged from December, which was revised from 0.8% (Figure 1). The sideways movement house price appreciation is consistent with our view that price growth bottomed in 4Q23, but that a discernible upward trend should commence in 2H24, once affordability improves. Market strength indicators suggest that both demand and supply of properties for sale are contracting, and by a similar magnitude (Figure 2). Below, we outline what to expect in the residential property market in 2024.

A steady recovery in sight

Following above-trend transaction activity between 2H20 and 2022, demand for residential property is expected to have reached its nadir in 2023. Available data suggests that mortgage volumes have declined by 28% to date, as affordability pressures kept prospective buyers at bay, and others seeking cheaper properties, as reflected by the compression in average loan sizes. Similarly, data suggests that house price growth may also have reached its trough in 4Q23, the lowest level since the Global Financial Crisis (GFC). Nevertheless, lower-priced segments outperformed, reflecting the buying-down effect and the persistent supply deficiencies. Meanwhile some high value segments, particularly in regions along the Western Cape coast, gained support from the semi-gration trend which now seems to be normalising.

While affordability pressures should ease somewhat, a rapid rebound in activity and house price growth is unlikely this year. We project home buying activity to move sideways in the near term, at levels 10% below the pre-pandemic average (between 2015 and 2019) but to pick up steadily over the forecast horizon. The gradual decline in inflation and borrowing costs, combined with employment gains, should modestly stimulate demand in the interest-rate sensitive segments over the medium term. This could see volumes mean-revert by 2025. In the longer term, volumes should stabilise modestly above pre-pandemic levels, supported by improved sentiment; employment and income gains; lower interest rates; faster population growth, as well as innovation and widening access to credit markets. We expect volumes to grow by 0.8% this year, before lifting by 12.7% in 2025 (Figure 3).

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

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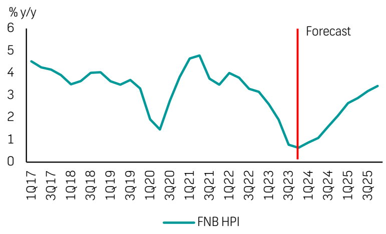
Figure 4: FNB HPI: Forecast

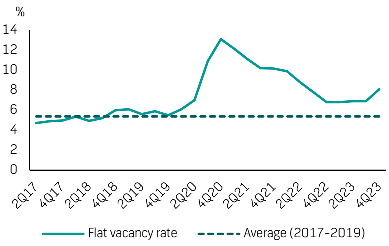


Source: FNB Economics

From a valuations' perspective, the subdued house price growth trajectory is likely to persist for a little while, until the lagged impact of lower inflation and borrowing costs filters through, from late 2024 to early 2025. In the longer term, price growth will be supported by improved GDP growth, and a combination of stronger demand for housing and improved structural affordability, following the persistent real house price correction since the GFC. We expect the FNB House Price Index (HPI) to average 1.4% this year, relatively unchanged from the 1.5% in 2023, before lifting to 3.0% in 2025 (Figure 4).

Rental market still reeling from the pandemic aftershocks

Figure 5: Flat vacany rate

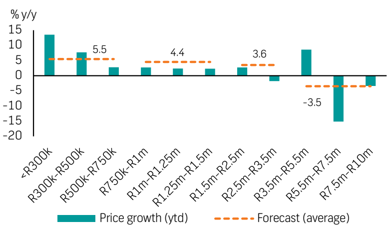


Source: Rode&Associates, FNB Economics

Rental inflation remains much lower than headline inflation, which is expected to average 5.2% this year, reflecting relative slack in the market, with demand yet to fully recover from the adverse effects of the pandemic. While vacancy rates have dropped from a peak of 13.3% at the height of the pandemic, the latest data suggests renewed pressure building up as vacancies crept higher in 4Q23 to 8.1%, from 6.9% in 3Q23. This is materially higher than the pre-pandemic level of 5.4% between 2017 and 2019 (Figure 5). From a supply perspective, the continued conversion of office space to residential rental space, particularly in areas with high office density, may keep vacancies elevated. From a demand perspective, the anticipated turn in the interest rates cycle will provide less support for the rental market. These factors will once again likely keep a tight lid on rental escalations in 2024. We expect rental inflation to average 3.2% in 2024, from 2.6% on average in 2023, and a pre-pandemic average of 4.4% between 2017 and 2019.

Summary of our segment views

Figure 6: Price growth by segment: Forecast



Source: FNB Economics

The affordable market: The buying-down effect, combined with stock shortages, helped sustain volumes and property price growth in lower priced segments in 2023. This shift in buying patterns will be less supportive this year, as affordability eases. In addition, the interest rate reprieve will filter through with a longer lag, as some prospective buyers take time to repair their credit records. As such, we anticipate a marginal decline in annual volumes, and slower price growth in the segment. That said, we are encouraged by the continued innovations in the segment to improve access and affordability, such as longer mortgage terms; collective buying options; and more streamlined administration of FLISP. These will continue to support activity.

Middle-priced segments: Activity will likely benefit from lower inflation and interest rates; our expectations of continued job gains in 2024; and increased competition in credit markets. Price growth should lift moderately from the low levels seen in 2023 but remain below inflation. Nevertheless, following the persistent real house price correction since the GFC, structural affordability, as measured by price-to-income ratio, has improved overtime. This should help support longer-term housing demand, resulting in stronger house prices in the outer years.

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Affluent markets: After a productive 2021 and 2022, marked by favourable pricing, a robust recovery in non-labour income, improved balance sheets in the aftermath of the pandemic, and the rise of remote work, buying activity declined sharply in 2023, weighing on property values. The semi-gration trend is also normalising, providing less support to high-end property demand in coastal towns. On the positive side, sales related to emigration have slowed, and anecdotal evidence suggests an increase, albeit from very low levels, in South African expats buying local property in higher-priced segments. Ultimately, sentiment will be an important determinant of market outcomes, and subject to event risks such as the February Budget and National Election outcomes. We expect volumes to move relatively sideways this year, and a price growth trajectory with a mild negative bias (Figure 6).

Figure 7: FNB Economic forecast

Economic Indicator	2022	2023	2024f	2025f
Real GDP %y/y	1.9	0.6	1.2	1.6
CPI (average) %y/y	6.9	6.0	5.2	4.8
Rental inflation	2.2	2.6	3.2	3.1
Repo rate (year end) %p.a.	7.00	8.25	7.50	7.00
FNB HPI (average) %y/y	3.5	1.8	1.1	1.4
Mortgage volumes %y/y	-6.8	-28.3	0.9	12.7

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	2.4	2.3	2.0	1.5	1.1	0.7	0.6	0.5	0.6	0.6
2024	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.