August 2019

Property Barometer.

+3.6%
y/y FNB HPI

+0.2%
m/m FNB HPI

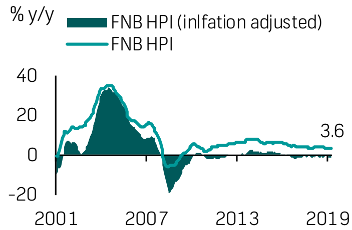
49.1
FNB Valuers' Market Strength Index

House prices tick up alongside rental inflation

Price developments

The FNB HPI ticked up marginally in July, recording 3.6% y/y from 3.5% y/y in June. This takes the average year-to-date nominal house price growth to 3.5% y/y, slightly worse than the 3.6% y/y recorded in the same period in 2018, but noticeably weaker than the 3.9% annual growth for 2018. At these levels, growth in house prices still languishes below inflation, using the headline inflation print of 4.5% in June. Positively, FNB Market strength indices revealed a mild improvement in demand, and a persistently slowing pace at which properties entered the market for sale. Consequently, the demand and supply gap narrowed marginally, but remains in favour of buyers. This can be attributed to some easing in buyer despondency post elections, the increased bargain hunting in the higher-priced segments and, more recently, lower interest rates.

Figure 1: FNB HPI



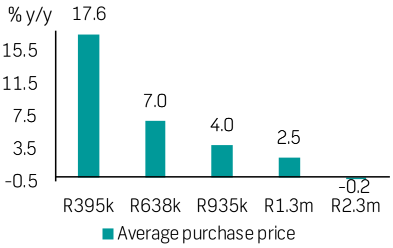
Source: FNB Economics

Contrasting trends in the lower and higher ends

Using data from the Deeds Office, we segment all towns into five value bands (deciles) based on their average home values. These bands range from Low-income areas (which corresponds to the bottom 20%) to the Luxury area value band (which corresponds to the top 20%).

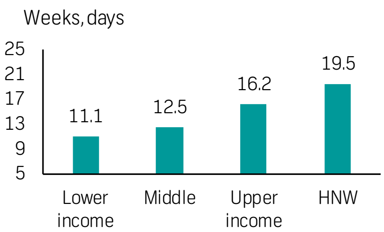
The 2Q19 home transactions data shows that growth in house prices either declined or slowed across all price segments, except in the lowest end where it accelerated (Figure 2). The Low-income area band (average purchase price R395 900) grew by an average of 17.6% y/y up from 16.3% y/y in 1Q19, while the Luxury value bands (average purchase price R2.3 million) declined by an average of 0.23% y/y down from +0.5% y/y in the previous quarter. This is not surprising, given that price growth in affluent regions such as the Atlantic Seaboard in Cape Town and Sandton in Johannesburg is in the doldrums. Lower-middle segment (average purchase price R638 200) averaged 6.8%. The Middle segment, which corresponds to homes in the middle 20% of the price spectrum (average purchase price R935 000), slowed to 4.0% y/y in 2Q19 from 4.4% in 1Q19. Upper-income value (average purchase price R1.3 million) and the Lower-middle segment (average purchase price R638 200) registered 2.5% and 6.7% y/y respectively.

Figure 2: Growth across price spectrum



Source: FNB Economics

Figure 3: Length of time on markt by segment



Source: FNB Estate Agents Survey

These trends are largely reflective of relatively stronger demand in the lower segments. This is evidenced by agents' perceptions about buying activity, as well as their estimation of the length of time a property is on the market in

Analyst

Siphamandla Mkhwanazi

Zharina Francis (Statistician)

Contact us:

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

the lower price segment (11 weeks and 1 day versus a national average of 14 weeks and 1 day) (Figure 3). However, this does not mean that the lower income households have not been negatively affected by the challenging macroeconomic environment. Part of this demand is due to higher-income households acquiring buy-to-let properties in lower price segments, and thus aiding price growth. On the opposite end of the price spectrum, the market continues to favour buyers. According to estate agents, over 98% of transactions in the HNW segment (typically properties valued at R3.6m or more) were concluded at below the initial asking price, with an estimated average discount of 14% compared to the 10% national average. Positively, 2Q19 results saw a commensurate pickup in activity rating and a reduction in the time a property is on the market in the HNW segment (19 weeks and 5 days, down from 21 weeks and 4 days in 1Q19). This indicates that bargain hunting is intensifying and that buyers are capitalising on the discounted prices. This green-shooting activity will likely take a further boost from the lower interest rates.

Rental market

Rental inflation edged up to 4.0% y/y 2Q19 from 3.5% y/y in 1Q19, but remained above headline inflation for a fourth consecutive quarter. This was driven by increases in rentals for freestanding houses and townhouses, while increases for flats eased slightly in 2Q19 (Figure 5). This is broadly consistent with the FNB Market Strength Index, which gauges sectional title properties (predominately Flats and Townhouses) to be moderately oversupplied. We have also seen a surge in the supply of new flats and townhouses, as reported by Stats SA in the first months of the year.

By region, the uptick was largely broad-based across eight out of the nine provinces. However, the pace at which rental inflation increased varied markedly across provinces. For instance, rental inflation remains elevated in the Western Cape, recording 7.6% in 2Q19, versus 2.8% in Gauteng (Figure 4).

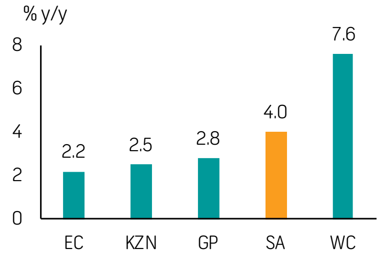
Surveyed data show flat vacancy rates to have been relatively elevated in the first quarter of the year. Rode & Associates' survey estimates the national vacancy rate for flats at 6.7% compared to 5.3% in the same period last year (two-quarter moving averages). These were particularly elevated in Durban and Cape Town, estimated at 9.1% and 8% respectively, compared to the 6.6% in Johannesburg (Figure 6).

Another survey conducted by TPN shows vacancy rates to have been higher in the "affluent" segments (typically R12 000 per month or more), relative to the lower-priced bands (15.4% versus 8.2%) (Figure 7). Despite these pressures, the FNB Estate Agents Survey revealed that the re-selling of investment properties (by property owners) due to "not obtaining a satisfactory rental income" remains low, at 2.8% of total sales. As such, investors appear to be favouring holding on to their investments, presumably until rental demand recovers to reasonable levels. Nevertheless, elevated vacancy rates and the continued financial pressure on households will likely keep rental escalations relatively contained this year.

Conclusion

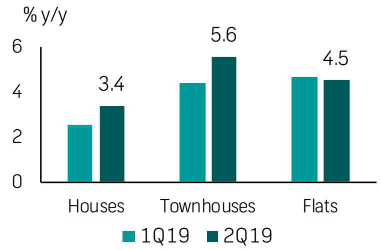
House price growth appears to be stabilising, following a generally slowing trend in the first half of the year. Positively, demand has shown mild signs of improvement, while sellers are opting to hold on to their properties amid unfavourable selling conditions. Improvements in demand can be attributed to some easing in buyer despondency post elections, the increased bargain hunting in the higher priced segments and, more recently, lower interest rates. However, poor economic growth and the elevated unemployment rate pose a significant threat to the sustainability of demand growth.

Figure 4: Rental inflation by province – 2Q19



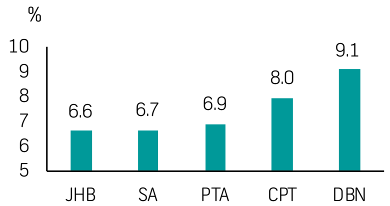
Source: Stats SA, FNB Economics

Figure 5: Rental inflation by unit type



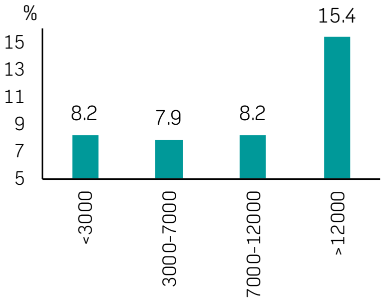
Source: Stats SA, FNB Economics

Figure 6: Flat vacancy rates by region – 1Q19



Source: Rode & Associates, FNB Economics

Figure 7: Flat vacancy rates by price segment – 1Q19



Source: TPN, 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	4.9	4.9	4.7	4.4	4.2	4.1	4.1	4.2	4.2	4.2	4.2	3.9
2018	3.3	3.1	3.3	3.6	3.9	4.1	4.1	4.0	4.1	4.2	4.2	4.2
2019	3.9	3.3	3.4	3.4	3.3	3.5	3.6					

Forecast

FNB SA Economic Forecast

Economic Indicator	2016	2017	2018	2019f	2020f	2021f
Household consumption expenditure %y/y	0.6	2.1	1.8	1.2	1.6	1.8
Government consumption expenditure %y/y	2.2	0.2	1.9	0.4	1.1	1.2
Gross fixed capital formation %y/y	-3.5	1	-1.4	-0.7	0.5	1.1
Real GDP %y/y	0.4	1.4	0.7	0.6	1.2	1.2
Total exports %y/y	0.4	-0.7	2.6	2.2	1.4	1.8
Total imports %y/y	-3.9	1	3.3	2.1	2.2	2.4
Current account (% of GDP)	-2.8	-2.5	-3.5	-3.3	-3.6	-3.7
CPI (average) %y/y	6.3	5.3	4.6	4.4	4.7	4.8
CPI (year end) %y/y	6.7	4.7	4.5	4.7	4.6	4.7
Repo rate (year end) %p.a.	7.00	6.75	6.75	6.50	6.50	6.50
Prime (year end) %p.a.	10.50	10.25	10.25	10.00	10.00	10.00
USD/ZAR (average)	14.70	13.30	13.25	14.30	14.90	15.70

Source: FNB

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 over the past 18 years.

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 a Hodrick-Prescott smoothing function with a Lambda of 5.

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.