July 2019

Q2 Property Barometer.

+3.5%
y/y FNB HPI

+0.4%
m/m FNB HPI

48.95
FNB Valuers' Market Strength Index

June HPI ticks up, estate agents now upbeat about near-term activity

Price developments

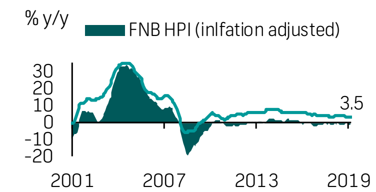
The FNB HPI trended up in June, recording 3.5% y/y from 3.3% y/y in May. This takes the average half-year nominal house price growth to 3.4% y/y, marginally worse than the 3.5% y/y recorded in the same period in 2018. Thus, in real terms, house prices continued declining, which we read as a continuation of a downward adjustment in line with subdued economic activity and lower disposable income levels.

On a more positive note, mortgage advances grew faster in May, recording 4.2% y/y up from 4.0% y/y in the previous month. This is the highest increase since July 2016. To date, mortgage extension has averaged 4.1% y/y, compared to the unsecured credit category which has averaged 9.6% y/y. If maintained, this could help support purchasing activity.

Across price segments, lower-value bands (i.e. bottom 40% of the price distribution) are faring relatively better than their higher-value counterparts (top 40% of the price spectrum). The low-income band (average purchase price R395 900 and corresponds to the bottom 20%) grew by an average 16.3% y/y, while the lower-middle segment (average purchase price R638 200) averaged 6.8% in 1Q19. The middle segment, which corresponds to homes in the middle 20% of the price spectrum (average purchase price R935 000), registered 4.2%. On the higher end, upper-income (average purchase price R1.3 million) and luxury value (average purchase price R2.3 million and corresponds to the top 20%) bands registered 3.0% and 0.8% y/y respectively in 1Q19.

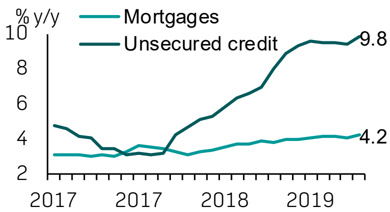
These are largely reflective of supply-demand imbalances across price segments – excess demand in the lower end and excess supply in the higher end. To be sure, the Estate Agents survey estimated that virtually all properties in "High-Net-Worth" areas (properties exceeding the value of R3.6 million) transacted at less than the initial asking price in the first half of 2019. Commensurately, the estimated average discount on asking price is larger in the higher end, at 14% in 2Q19, versus the 10% national average. This implies buyers have a disproportionately high negotiating power in those segments. In contrast, however, home transactions data suggests that market volume growth has been biased towards the higher-value bands in the first half of the year (more on this below.

Figure 1: FNB HPI ticks up in June



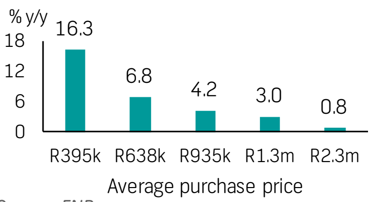
Source: FNB

Figure 2: Mortgage advances rising steadily



Source: FNB, SARB

Figure 3: HPI by value band – 1Q19



Source: FNB

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

Metro focus: Attractive bargains in the higher end

City of Johannesburg

The 1Q19 data showed the city's estimated average house price growth to have softened further to 2.1% y/y, from 2.9% in 4Q18. This marks the 13th consecutive quarter of decelerating house price growth in the city. In the main, slowing prices are prevalent across virtually all sub-regions, with the higher-priced areas more severely affected. In fact, house prices have begun falling in Sandton and environs (the most expensive region in the city), registering -1.7% y/y in 1Q19. A similar trend emerges in other higher-end areas (in terms of average prices) such as Randburg and Midrand, which recorded 0.4% and 2.0% y/y in 1Q19 from 1.7% and 2.4% y/y respectively in 4Q18.

Sub-regions in the middle of the price range are also experiencing slowing growth. Jhb South and Lenasia sub-regions slowed to 1.4% and 3.7% y/y in 1Q19, from 2.5% y/y and 4.9% y/y respectively in 4Q18. Soweto remains the best performing sub-region in Jhb, although average house price growth has slowed noticeably over the past 12 months, coming down from a peak of 14.3% y/y in 1Q18 to 4.7% y/y in 1Q19.

City of Tshwane

Like the City of Johannesburg, the City of Tshwane's estimated average house price softened further, and registered a subdued 1.5% y/y in 1Q19, down from 1.9% in 4Q18. Sub-regional indices show that house price growth in the city is being dragged by the more affluent regions, with prices in Pretoria East and Centurion falling by 0.01% and 0.8% y/y respectively in 1Q19. In contrast, the Northern sub-regions, primarily comprised of middle and low-income areas, are trending upwards. Akasia, which primarily offers middle-priced housing alternatives, jumped to 6.9% y/y in 1Q19, from 5.5% y/y in 4Q18. This marks the third consecutive quarter of accelerating prices in the region. Moving further down the price range, the Mabopane/Soshanguve sub-regions remain buoyant, and accelerated to 10.6% y/y in 1Q19 from 10.1% y/y in 4Q18.

City of Cape Town

Our 1Q19 City of Cape Town Sub-Regional House Price Indices showed that most sub-regions are experiencing slowing house price growth, with the most expensive regions now experiencing house price deflation following years of strong affordability deterioration. We find that affordability has not improved sufficiently in the region, despite a sharp deceleration in house price growth over the past 18 months or so. This suggests there is scope for further downward adjustment in Cape Town house prices, and a nominal decline in prices is conceivable at this point (see our full report on the City of Cape Town here).

eThekwini

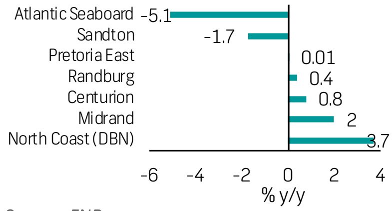
The eThekwini Sub-Regional House Price Indices showed the city to be performing better than all major metros in South Africa, with average house price growth of 5% in 1Q19. Areas in the northern parts of the city, closer to the airport, are doing particularly well. Excluding low-income areas, the North Coast Inland region, which includes areas such as Tongaat and Redcliffe, has registered the highest cumulative five-year growth in the metro, at 41% versus the metro average of 31%. Growth in the sub-region has been supported by new developments in the area.

Demand and supply imbalances

The FNB Market Strength Index, based on the Valuers' database, continues to gauge the market as moderately oversupplied, particularly in the middle-to upper-income areas. By property type, the index gauges sectional title properties to be oversupplied, while demand and supply of freestanding properties to be relatively evenly balanced. This is consistent with a surge in the supply of flats and townhouses, as reported by Stats SA.

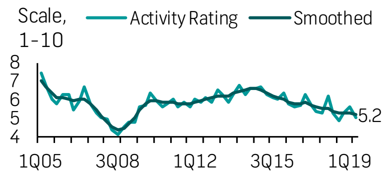
The view of a supply-demand imbalance was supported by a marginal rise, from 95.3% to 98% in the second quarter, in the percentage of sellers having to drop their asking price. Furthermore, the average price drop edged up moderately

Figure 4: North Coast outperfoming in the "affluent" regions



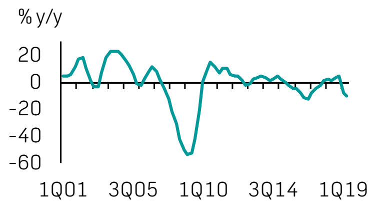
Source: FNB

Figure 5: Market activity rating – 2Q19



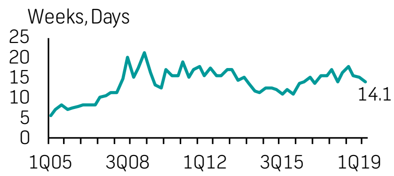
Source: FNB Estate Agents Survey

Figure 6: Market volumes retreated prior to the election



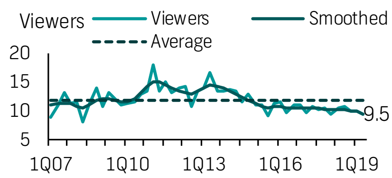
Source: FNB Estate Agents Survey

Figure 7: Time on market – 2Q19



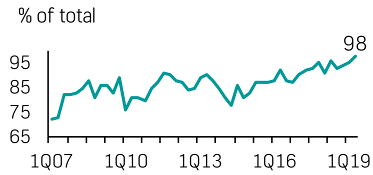
Source: FNB Estate Agents Survey

Figure 8: Serious viewers per show house prior to sale



Source: FNB Estate Agents Survey

Figure 9: Sales below asking price



Source: FNB Estate Agents Survey

to 9.9%, above the historical average of approximately 9.0% since 2010, all consistent with a market in favour of buyers. However, the FNB Supply Strength Index shows that the pace at which properties are entering the market has been adjusting to lower demand in recent months.

In addition, the survey results reveal that the average estimate for "serious viewers per show house prior to sale" was 9.4 viewers per show house in 2Q19, from 10 in the prior quarter. This still lags below the historical average of 11.9 viewers since 4Q06, suggesting that buyer enthusiasm is still relatively slack. Nevertheless, the average time of homes on the market improved to 14 weeks and 1 day, from 15 weeks in 4Q18, possibly as buyers rush to take advantage of bargains. This is significantly lower than the most recent peak of 17 weeks and 6 days in 3Q18 and edging closer to the long-term average of 13 weeks and 4 days (since inception of the survey question in 4Q04).

Activity rating and market volumes

The agents' Residential Activity rating (scale of 1 to 10) registered 5.04 from 5.59 in the first quarter, suggesting that market activity was perceived to have been slower in 2Q19 versus 1Q19. We attribute this largely to the election-related despondency. Positively, however, agents' outlook for the next three months has shifted to general optimism, from neutral in the last two quarters. At these levels, estate agents are as upbeat about near-term market activity as they were in in 1Q18, following a change in political leadership.

Cooler demand in the first half of 2019 is also reflected in transaction volumes (by natural persons) as recorded by the Deeds Registry. Seasonally adjusted volumes retreated by an average of 5.6% y/y in the first half of 2019, compared to the corresponding period in 2018. The first-half decline in volumes offset the 5.9% y/y average improvement in the second half of 2018. At these levels, transaction volumes are approximately 65% below the historical peak in 2006, 20% above the historical trough in 2009 (during the global financial crisis), and 13% below the post-crisis average (since 2010).

Looking ahead, we expect some activity to recover in the second half of the year, due to the combination of lower interest rates and some improvement in buyer sentiment. This should see buyers take advantage of attractive prices particularly in the higher price ends. Nevertheless, sustainable growth in purchasing activity hinges on the broader economic developments, particularly the labour market.

Reasons for selling

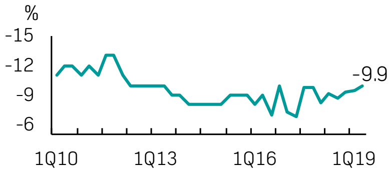
Survey data shows that "Downscaling because of life stage" dominates as the most prominent reason for selling a property in SA, with such sales accounting for 23% of all sales in 2Q19, the same as in 1Q19. Concerningly, "Downscaling due to financial pressure" has become increasingly prominent in the past year; the estimated proportion of such sales jumped to 19% in 2Q19 from 16% in 1Q19. This is consistent with our view that household finances are under pressure. Of those who sell due to financial pressure, around 60% now opt for the rental market, as opposed to a cheaper property. However, these trends do not appear to have benefited the rental market yet, as flat vacancies have continued rising and rental inflation is still muted.

Emigration-driven sales have become a more prominent feature of the housing market in South Africa over the past two years. According to estate agents, these are estimated to have steadied at around 13.4% in 2Q19, marginally down from 14.2% in 1Q19. This trend is more prevalent in the higher end of the market, although appears to have spilled over to the lower ends as well. The spike in the lower and middle ends could, in part, be explained by upper-income owners disposing of their investment properties.

Outlook

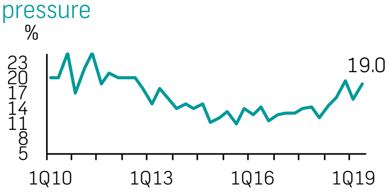
We expect that the improvement in sentiment combined with an interest rate cut, which we expect at the next MPC meeting this month, will somewhat support demand for mortgages and thus purchasing activity. In fact, activity appears to have already picked up after the elections, although not enough to counteract the decline in the months before that. This uptick, however, will be countered by rising household income pressures. In all, we expect house prices to average around the 3.5% mark, versus our inflation projection of 4.6% this year.

Figure 10: Percent drop in asking price



Source: FNB Estate Agents Survey

Figure 11: Downscaling due to financial pressure



Source: FNB Estate Agents Survey

Table 1: Reasons for selling – 2Q19

Reasons for selling (as % of total sales)	SA	HNW	Upper	Middle	Lower
Downscaling due to financial pressure	19	16	21	19	19
Downscaling with life stage	23	26	26	20	23
Emigrating	13	17	15	14	10
Relocating within SA	8	8	7	9	8
Upgrading	10	7	8	11	11
Moving for safety and security reasons	8	6	9	9	8
Change in family structure	13	16	12	12	12
Moving to be closer to work or amenities	7	4	3	7	10

Source: FNB Estate Agents Survey

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						

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	14.93	15.77

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.