



# Property Barometer.

**+3.6%**  
y/y FNB HPI

**+0.2%**  
m/m FNB HPI

**49.0**  
FNB Valuers' Market Strength Index

## Slight improvement in transaction volumes alongside mortgage advances

### Price developments

The FNB HPI remained steady in August, at 3.6% y/y. Year-to-date nominal house price growth remains around the 3.5% y/y mark, largely similar to the 3.6% y/y recorded in the same period in 2018. Nevertheless, house price growth this year still lags behind the 3.9% annual growth for 2018.

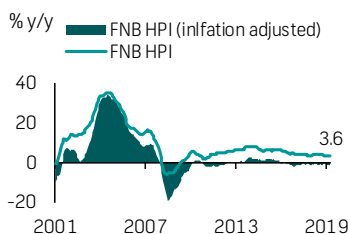
The eThekweni metro continues to overperform, supported by booming developments in the North Coast regions, as well as renewed interest in the city centre (Figure 2). It is important to point out, however, that the FNB HPI is based on repeat sales methodology, which only considers properties that have exchanged hands more than once in the past 10 years. Thus, it is likely that the price effect of the new property developments in the city does not yet fully reflect in our house price index. Nevertheless, survey data does show a few improvements in the eThekweni property market, such as the reduction in the length of time it takes to sell a property as well as the growing buy-to-let market (Figures 3 and 4). In the inland regions, Ekurhuleni appears to have bucked the generally slowing price trend at a national level, while Johannesburg and Tshwane remain in the low single-digit territory.

### Slightly improved purchasing activity

While the property market has underperformed, in line with the economic environment, there are a few positives that suggest that it may be stabilising. The FNB Market Strength indices reveal that the demand-supply gap has narrowed slightly. This is driven by both the mild improvement in demand and the persistently slowing pace at which properties enter the market for sale. The slowing pace of supply is driven by sellers withdrawing their properties, amid tough selling conditions, as it is becoming increasingly difficult to attain asking prices. This is countered somewhat by the surge in the supply of new stock (particularly flats and townhouses), as well as the rising emigration-related sales.

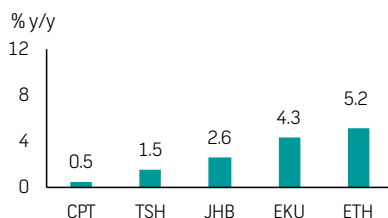
On the demand side, the improvement can be attributed to some easing in buyer despondency post elections, the increased bargain hunting amid attractive pricing, increased competition between mortgage lenders as well as lower interest rates. This is reflected in the steady growth in mortgage extension, which has averaged 4.3% y/y year-to-date, versus 3.4% y/y in the same period last year.

Figure 1: FNB HPI



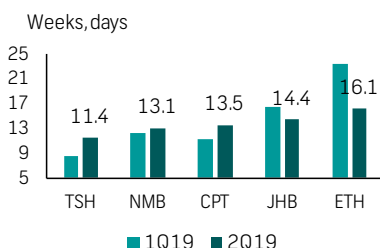
Source: FNB Economics

Figure 2: Growth across metros – 2Q19



Source: FNB Economics

Figure 3: Time on market by region – 2Q19



Source: FNB Estate Agents Survey

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In fact, mortgage advances have been growing faster than the average house price growth in South Africa since the beginning of the year. Except for the brief period in the beginning of 2018 ("Ramaphoria"), we have not seen mortgage lending outpacing house prices since June 2011. This is also reflected in the transaction volumes, which we estimate using the Deeds registry data<sup>1</sup>, that have ticked up by 0.9% y/y in 2Q19. The disaggregation of the data by purchase price reveals that the R700k–R1.8m and R1.8m–R3.5m ranges were the best performing segments, growing by 5% y/y and 2.4% y/y respectively in the first half of this year.

## Robust price growth in the lower end, despite slowing transaction volumes

While there are major variations across regions, price groupings continue to show robust growth in the lower end (bottom 20% of the price distribution), and nominal price decline in the affluent end (top 20%). However, there is also evidence of some traditionally low-income areas having started to normalise, such as Soweto in Johannesburg and Mabopane/Soshanguve in Tshwane. In Cape Town, however, low-income areas remain relatively insulated from the prevailing property market pressure in the city. Affluent regions, such as the Atlantic Seaboard in Cape Town and Sandton in Johannesburg, remain under pressure, presenting favourable buying conditions. This, in part, has supported purchasing activity.

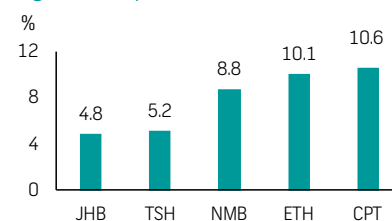
## Outlook

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 given the attractive pricing, more competition between lenders as well as lower interest rates. Increased lending, however, has been more skewed towards the higher-priced segments. Activity in the lower end is being hindered by lack of affordability, primarily due to the scarcity of adequately priced properties in prime locations.

On the interest rate front, we expect the combination of easier global financial conditions, weak domestic demand and contained inflation to allow the SARB some space for further monetary policy easing. As such, as a base case, we have pencilled in a 25bps cut by the end of this year. If global policy rates and domestic inflation push lower than currently expected, there could be more room for further policy easing. This, however, is counteracted by the deterioration in South Africa's fiscal metrics and increased risks to global growth.

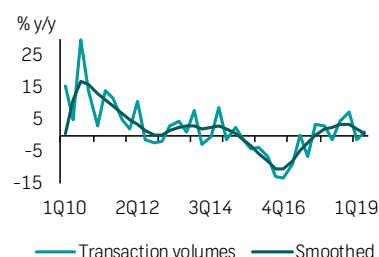
While lower interest rates will provide underlying support to consumers in the near term, the structural impediments to stronger economic growth remain intact, and these will heavily influence the performance of the housing market. These include high government indebtedness, inefficiency of large state-owned entities, a lack of government capacity and low private sector investment (thus constraining employment growth). Considering all of the above, we continue to expect house price growth to average between 3.5% and 4% y/y this year and in 2020.

Figure 4: Buy-to-let as % of total transactions



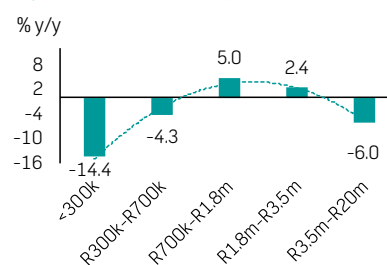
Source: FNB Estate Agents Survey

Figure 5: Transaction volumes ticked up in 2Q19



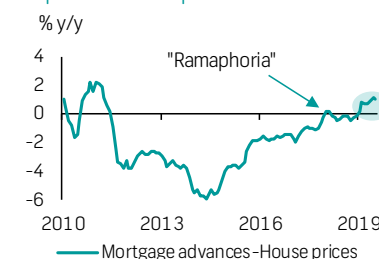
Source: FNB Economics

Figure 6: Volumes by price buckets (2qma)



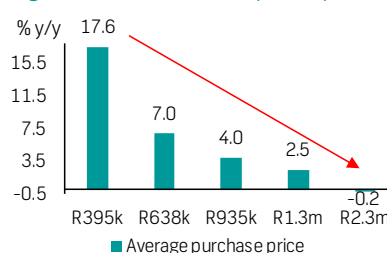
Source: FNB Economics

Figure 7: Mortgage advances have outpaced house prices



Source: SARB, FNB Economics

Figure 8: Growth across price spectrum



Source: FNB Economics

<sup>1</sup> Deeds data comes with long administrative lags and is therefore subject to revisions as new data comes in.

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	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	1.1	1.1	1.2
Gross fixed capital formation %y/y	-3.5	1	-1.4	-1.4	0.5	1.1
Real GDP %y/y	0.4	1.4	0.7	0.3	1.2	1.2
Total exports %y/y	0.4	-0.7	2.6	2.1	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	4.2	4.4	4.5
CPI (year end ) %y/y	6.7	4.7	4.5	4.3	4.4	4.4
Repo rate (year end) %p.a.	7.00	6.75	6.75	6.25	6.25	6.25
Prime (year end) %p.a.	10.50	10.25	10.25	9.75	9.75	9.75
USD/ZAR (average)	14.70	13.30	13.25	14.50	14.90	15.50

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 from the 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 previous transaction 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.