September 2019

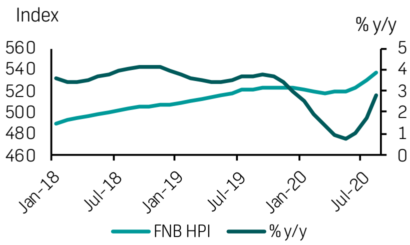
# Property Barometer.

**2.8%**
y/y FNB HPI

**10 weeks, 6 days**
Time on market

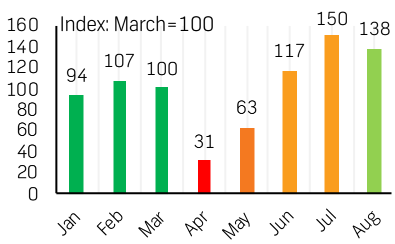
**48.73**
FNB Valuers' Market Strength Index

Figure 1: FNB HPI



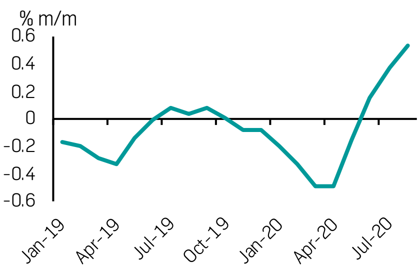

*Source: FNB Economics*

Figure 2: Mortgage applications remain robust post easing of lockdown restrictions




*Source: FNB Economics*

Figure 3: FNB Market Strength Index: Progressive recovery




*Source: FNB Economics*

## Buying activity resurging, time on market reducing

The FNB House Price Index (HPI) shows annual house price growth accelerated further in August, reaching 2.8% y/y, up from 1.8% in July (revised up from 1.4%). The rebound in prices is supported by the unexpectedly rapid recovery in market activity since the easing of lockdown restrictions. Our initial expectations were for the pandemic to have a more chilling and lingering impact on activity, with demand picking up only later this year and into next year. In contrast, the FNB mortgage applications data, combined with data from mortgage originators, shows volume of new mortgage applications to have surpassed pre-lockdown levels, reaching new highs in the last three months. In addition, new data from the FNB Estate Agents survey shows the average time a property is on the market improved from 14 weeks and 1 day in 2Q20, to just 10 weeks and 6 days in 3Q20. Importantly, the newly found "buyer exuberance" is evident across the price spectrum.

The resurgence in market activity is fuelled by the aggressively lower interest rates, lower prices in some (mainly affluent) suburbs and lower transfer duties. These factors have improved affordability and, notably, lured renters and first-time buyers into purchasing property. Indeed, data from the Deeds Office, while preliminary, shows a marked increase in the transaction volumes attributed to "younger" buyers (below 35 years), from 38% of total in 2019 to around 43% in 2020. This age group forms the core of "renting age" in South Africa. This drive, i.e. the switch from renting to ownership, in part, helps explain rising vacancies in the rental market, as well as the better performance of house prices (based on transaction prices) relative to rental prices. Nevertheless, it remains unclear whether this is a transitory impulse, fuelled by the positive factors outlined above, or a more fundamental shift in the South African property market landscape.

While a welcome green shoot, the rising activity (and by extension, house prices) contrasts with the adverse impact of the pandemic on household earnings and the anecdotal evidence of rising unemployment, signalling still tight lending conditions. Correspondingly, annual growth in mortgage advances, on the other hand, has not shown signs of improvement. SARB data shows the pace of mortgage extensions to have stabilised at 2.9% y/y in July, marginally lower than the 3.0% recorded in the previous month. However, momentum is clearly picking up and now retracing pre-lockdown levels: month on month growth quickened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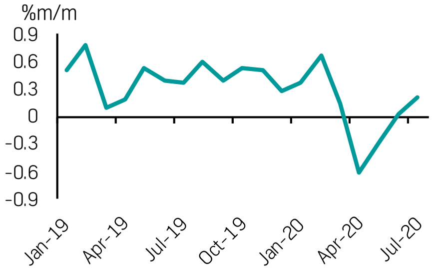
to 0.2% m/m in July, after bottoming at -0.6% m/m in April. While this gain in momentum is consistent with increased activity, the pace still lags that of other market activity indicators, suggesting some degree of caution among lenders.

## Outlook

Looking ahead, the historically low interest rates and lower transfer duties (particularly in the middle-priced segment) will continue to support activity, and by extension, house prices in the very near term. However, there is still a great deal of uncertainty around the lasting impact of the pandemic. In particular, our expectation of a significant weakening in labour market conditions implies a greater downward pressure on house prices in the medium term.

Figure 4: Mortgage advances: Momentum lags, but picking up




*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** | 4.9 | 4.9 | 4.7 | 4.4 | 4.2 | 4.1 | 4.1 | 4.2 | 4.2 | 4.2 | 4.0 | 3.8 |
| **2018** | 3.3 | 3.1 | 3.3 | 3.6 | 3.9 | 4.1 | 4.1 | 4.0 | 4.1 | 4.2 | 4.1 | 4.0 |
| **2019** | 3.9 | 3.3 | 3.4 | 3.4 | 3.3 | 3.5 | 3.6 | 3.7 | 3.8 | 3.7 | 3.5 | 3.1 |
| **2020** | 2.5 | 2.0 | 1.4 | 0.9 | 0.6 | 0.7 | 1.8 | 2.8 | | | | |

### 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.