January 2022

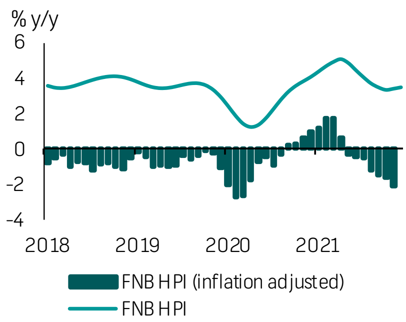
Property Barometer.

3.5%
y/y FNB HPI

49.6%
Market strength index

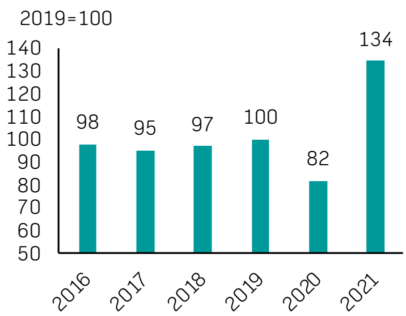
7 weeks & 6 days
Time on market

Figure 1: FNB HPI



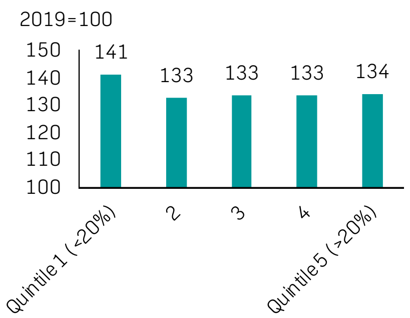
Source: FNB Economics

Figure 2: YTD mortage volumes relative to 2019



Source: FNB Economics

Figure 3: Y TD mortage volumes relative to 2019



Source: FNB Economics

Key themes: 4Q21

- Market strength indicators show that growth in demand has moderated, but market volumes are still running above pre-pandemic levels. Deeds data, supported by internal applications volumes, shows that mortgage approvals in the first 9 months of 2021 were approximately 34% higher compared to the same period in 2019 (Figure 3). The resurgence in market volumes was more pronounced in the affordable segments, following a more severe decline in 2020 due to harsher impact of the pandemic on lower income households (Figure 4). Indeed, lower income buyers tend to be more sensitive to economic shocks. Furthermore, prior to the pandemic, the more "affordable" segments were experiencing a faster-paced growth in demand compared to all the other price segments. Thus, the surge also reflects the continuation of that trend, and would have been fuelled by ultra-low interest rates.

- Despite slowing volumes growth, the value of mortgage extension continues to trend higher. This reflects a shift towards higher price brackets (or bigger properties). By November 2021, the value of outstanding mortgage advances was 7.3% higher compared to the same period in 2020, and 11% compared to 2019. Deeds data, and once again supported by internal applications volumes, shows that the average mortgage size approved in the first 9 months of 2021 was approximately 16% and 13% higher compared to the same period in 2019 and 2020 respectively (Fig 5).

- Our estimated market-wide loan-to-price ratio (proxy for loan-to-value, at origination) is trending lower: buyers now need to fork out slightly bigger upfront deposits relative to the 2020 average, but still smaller compared to 2019. The value of an approved (and taken up) mortgage relative to the purchase prices was 92.1% in 3Q21, backtracking from a peak of 93.1% in 4Q20 (Figure 6). At the same time, market volumes are migrating away from younger buyers (<35 years old), towards middle-aged (35-55 years old) and, to a lesser extent, older aged groups (+55 years old) (Figure 7). These buyers tend have stronger balance sheets (equity) and access to savings to fund upfront deposits. Nevertheless, LTP ratio remain above the post-global financial crisis average of 89.9%.

- Interest rates are set to increase by at least 75bps this year, on the back of rising inflationary pressures and the less accommodative global monetary policy conditions. While this may have a cooling effect on market volumes (and eventually price growth), it is important to distinguish that the current wave of buying activity is predominantly driven by buyers who are less sensitive to interest hikes, as elucidated above.

- The slow recovery in the labour marker, combined with rising interest rates suggests a less supportive medium-term environment for home buying activity. However, if sustained, the ongoing shifts in housing needs, which has lent support to homeownership, could mitigate the impact.

[1] Caution: analysis is at a macro level. Strategies differ markedly across lending institutions.

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Annual house price growth stabilises in December

The FNB House Price Index moved sideways in December, recording 3.5.%, from 3.4% (revised up from 3.0%) in November. This suggest that house price growth averaged 4.2% in 2021, up from 2.5% in 2020. Having peaked at 4.8% in 2Q21, the second half of 2021 was characterised by slowing pace of market volumes and house price growth. We expect house prices to average between 3% and 4% in 2022 and will take direction from the strength of labour market recovery and interest rates path.

Summary of Estate Agents Survey results 4Q21

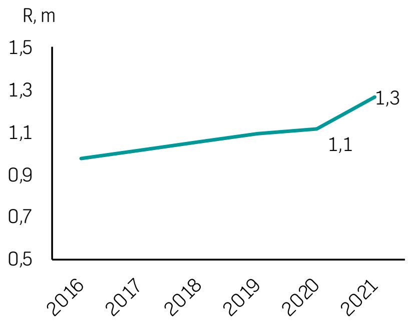
Market activity: Following a descend from peak of 6.9 (out of 10) in 4Q20 to 6.3 in 3Q21, housing market activity improved marginally in 4Q21, recording a rating of 6.5. While much of the improvement could be driven by the 4Q seasonality, survey results show a recovery, albeit incomplete, in KZN following the July riots. Activity is strongest in the Western Cape (7.6) and Eastern Cape (7.1). By price segments, activity is strongest in the Affordable (<R750k) and Affluent markets (>R3.6m). Within the affordable segment, agents saw stronger activity in the R250k-R500k sub-segment. Looking ahead, expectations of near-term activity (in the next three months) pulled back, with only a third of respondents (33%) expecting activity to increase from current levels, down from 45% in 3Q21. This is due to a combination of waning seasonal factors and expectations of higher interest rates.

Time on the market: In line with improved activity, average time properties spent on the market for sale shortened to 7 weeks and 6 days, from 8 weeks and 6 days in the previous quarter. The rating was similar (around 7 weeks and 6 days national average) across price segments, except for the affluent segment which recorded 8 weeks and 2 days. At 7 weeks and6 days, time on market is well below the post global financial crisis average (since 2009) of 14 weeks and 1 day.

Market sentiment: In line with stronger market activity, estate agents' sentiment – as measured by the proportion of agents who are satisfied with prevailing market conditions – improved marginally across segments and regions, from 74% to 76% in 4Q21. Improvement was more visible in KZN, with 62% of interviewed agents satisfied with market conditions, up from a riot-induced 51% in 3Q21. Nevertheless, this is still some distance away from the pre-riots reading of 72%, suggesting a lingering impact. Sentiment is more upbeat in the Western Cape and Eastern Cape, at 87% respectively.

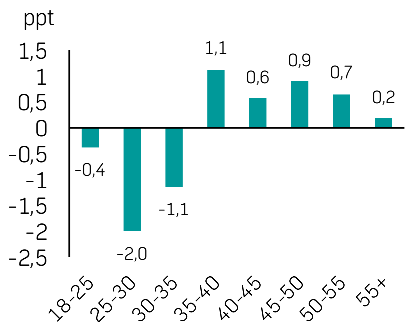
Reasons for selling: The reason for selling matrix remained broadly unchanged from the previous quarter and shows that sales due to financial pressure are still elevated at an estimated 20% of the market, while emigration-related sales remain stable at around 8%. This ratio increases to 14% and 11% in the R2.6m-R3.6m and the >R3.6m segment. Notably, in 3Q21, the KZN region saw an increase in selling due to security reasons to 11% from 8% in the previous quarter. The 4Q21 data shows that this reverted to 7%, similar to the national average.

Figure 4: Average loan size



Source: FNB Economics off Deeds

Figure 5: LTP by price quintile 3Q21: Deviation from 2020 averages



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	4.8	4.4	4.0	3.5	3.2	3.0		3.5

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.