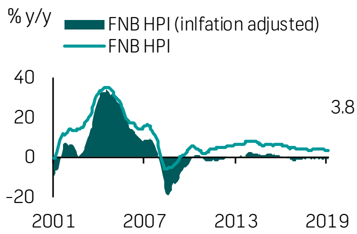
November 2019

Property Barometer.

+3.8% y/y FNB HPI	+0.3% m/m FNB HPI	49.2 FNB Valuers' Market Strength Index

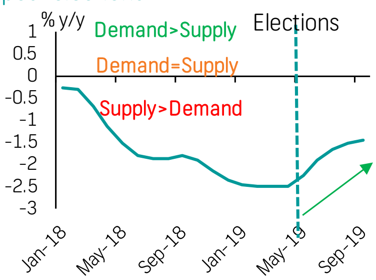
Rental market still depressed

Figure 1: FNB HPI



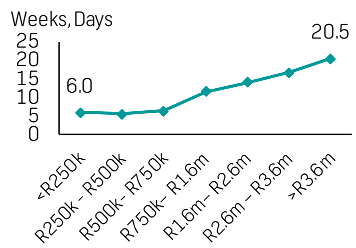
Source: FNB Economics

Figure 2: Supply-Demand gap narrowing post elections



Source: FNB Economics

Figure 3: Market is relatively stronger in the lower end



Source: FNB Economics

Price developments and market strength

The FNB HPI steadied at 3.8% y/y in October, unchanged from the previous month. Year-to-date house price appreciation has averaged 3.6% y/y, slightly below the 3.7% in the same period last year.

FNB Market Strength Index (a composite index that gauges demand and supply strength) has revealed a narrowing demand-supply gap over the past few months. This is on the back of both the mild improvement in demand, and the persistently slowing pace at which properties enter the market for resale. 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 the increased bargain hunting amid attractive pricing in the middle- to upper-priced segments, increased competition between mortgage lenders as well as lower interest rates.

The FNB Affordable Market Insights (our newly launched survey into the affordable housing market) reveals that despite the challenging macroeconomic environment, the lower-priced segments continue attracting strong demand from prospective homeowners. The survey shows that year-to-date, a property has an average of 13 enquiries and stays on the market for approximately 6 weeks before it is sold. To put this into context, the "conventional" market averages 9.6 viewers and approximately 16 weeks on market for sale. Stronger demand is recorded in the R250k–R500k price bucket, with 16 viewers per showroom and a duration of 5 weeks and 6 days on the market. Part of this strong demand is due to robust buy-to-let activity, which is estimated to account for around 30% of total transactions. Nevertheless, mortgage lending in these segments remains relatively conservative. This is mainly driven by often weak affordability, but also supply-side factors such as inadequate supply of new build stock.

Growth in mortgage transactions

The 3Q19 transactions data shows that mortgage volumes trended up, expanding by around 4.3% y/y. This is in line with the recent upswing in mortgage lending, which has progressively outpaced house price growth. According to data from the SARB, mortgage advances have grown at a progressively faster pace, recording 5.0% y/y in August – the highest growth since November 2010. Furthermore, the loan-to-price ratio has increased to 91.2% in 3Q19, suggesting

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

that lenders are progressively asking for smaller deposits from prospective buyers. Much of this upsurge, however, has been more in the middle to upper segments, with lending to the lower end remaining relatively conservative.

Easier lending standards could also be behind the recent improvement in "non-essential" property purchases, particularly holiday home buying. Data from the Estate Agents Survey shows holiday home buying to have nudged up to 2.5% (of the total property transactions) in 3Q19, after a recent low of 2.3% in 1Q19. Nevertheless, this is still below the historical average of 2.7% (since 2007) as well as the recent peak of 3.5% in 1Q18 (during "Ramaphoria"). Interestingly, holiday home buying appears to be migrating away from Cape Town and towards Durban and, to a lesser extent, Port Elizabeth. This could be attributed to relatively better price points in the other two coastal towns relative to Cape Town. Nevertheless, holiday home buying in Cape Town remains robust, assisted by the recent downward price adjustment in the affluent regions.

Rental inflation still subdued

The 3Q19 rental CPI eased further to 3.3% from 4.0% in the previous quarter. Lower rental escalations were recorded across all major provinces, except in KZN. Data further reveals that rental inflation is still the highest in the Western Cape, at 6.6% y/y in 3Q19 versus 1.8% in Gauteng. We believe the Western Cape rental market is being held up by the lower price segments in Cape Town, while pressure persists in the upper end. This pressure will likely continue filtering down, which should see rental inflation in Cape Town (and consequently the Western Cape) continue trending lower.

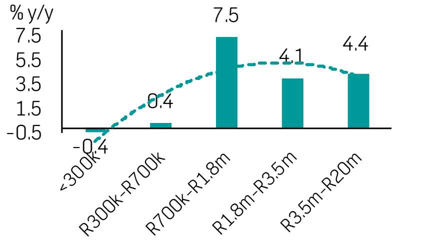
Overall the downward trend in rental CPI reflects muted demand as well as the surge in the supply of new flats and townhouses, which, according to our market strength index, are currently in excess supply. This is evidenced by rising vacancy rates, which averaged 5.9% in 3Q19 from 5.6% in 2Q19, according to Rode and Associates' data. These were estimated to have risen across all major cities in the country, except in Durban (Figure 7). In part, this explains diverging the uptick in rental CPI in KZN.

Looking ahead, pipeline supply (volume of new residential units in the planning stage) has retreated, presumably in reaction to subdued demand. This gives tentative signs that actual supply of new stock will likely decline in the coming months, which should help the market stabilise. We maintain our view that rental inflation will trend lower in the near term, and will likely start improving in the first half of 2020, in line with a soft uptick in growth well as our expectations of supply adjustments. Nevertheless, given the uninspiring outlook on employment growth, we expect rental inflation to remain relatively low throughout the forecast horizon.

Conclusion

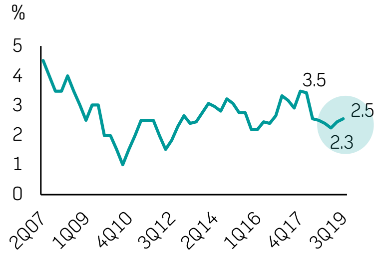
We expect broader economic developments, especially employment growth, to continue dictating the longer-term trends. Positively, demand (for mortgages) has shown mild signs of improvement across all price segments. At the same time, sellers have begun withdrawing properties on the market for resale amid unfavourable selling conditions. This has somewhat curtailed the pace of supply. Nevertheless, there is still robust supply of new stock, as well as emigration-related sales. On the other hand, inbound demand (i.e. from foreigners buying property in South Africa as well as from South African expats buying property locally) remains comparatively subdued. More positively, mortgage advances have been progressive in recent months and LTPs have been rising. This has helped inject liquidity in the market. However, these benefits have mainly accrued to the higher-priced segments, with lending in the lower end remaining broadly conservative. This also appears to be supporting holiday home buying activity.

Figure 4: Volumes by price buckets – 3Q19



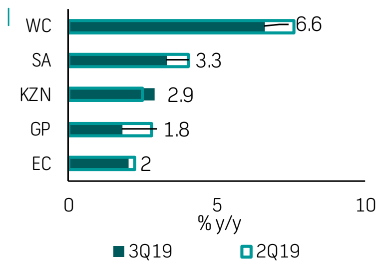
Source: FNB Economics

Figure 5: Holiday home buying improving from recent lows



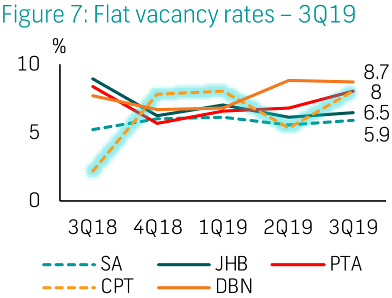
Source: FNB Economics

Figure 6: Rental inflation trending lower still



Source: Stats SA, FNB Economics

Figure 7: Flat vacancy rates – 3Q19



Source: Rode, 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	3.7	3.8	3.8		

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	4.5	4.5
CPI (year end) %y/y	6.7	4.7	4.5	4.4	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 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.