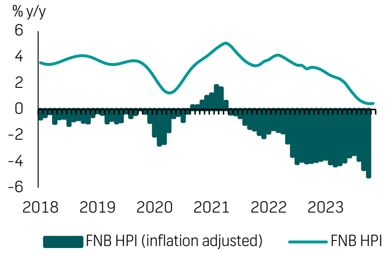
Property barometer

6 December 2023

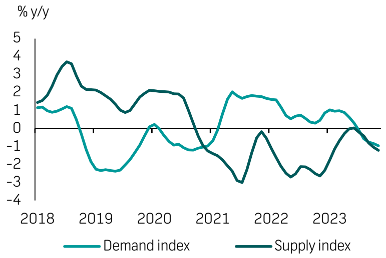
0.5% ⇔ y/y FNB HPI	50.55 ↑ Market strength index	11 weeks and five days ⇔ Time on market

Figure 1: FNB HPI



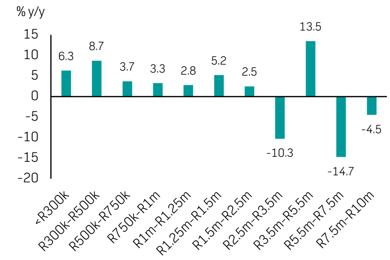
Source: FNB Economics

Figure 2: Market strength indices



Source: FNB Economics

Figure 3: Average house price growth by bracket:3Q23*



Source: Deeds, FNB Economics

**Note: Data are preliminary*

Key themes:

- We expect that interest rates have reached their peak, with a measured cutting cycle coming into view in the latter half of 2024.
- In line with diminished affordability, buying activity continues to decline across the spectrum, with volumes languishing slightly below pre-pandemic levels. There are signs of widespread downscaling in the market, supporting volumes in lower-priced brackets. At the same time, younger buyers have become more despondent, reflecting the disproportionate impact of subdued economic activity and high interest rates on younger individuals.
- Our projections of slightly lower interest rates and moderately better growth outcomes should help stabilise mortgage volumes and property price growth next year.

House price growth plateaued in November

The FNB House Price Index growth averaged 0.5% y/y in November, virtually unchanged from the previous month's print (Figure 1). Our market strength indices show both demand and supply in negative territory. We suspect that the supply index largely reflects the decline in construction of new housing units, in response to lower demand (Figure 2). It is also possible that the unfavourable selling conditions, characterised by diminished affordability and tighter lending standards, are causing some homeowners to revaluate their decisions.

By price, preliminary data shows that price growth is slowing across all our selected price brackets, except for the R1.25-R1.5 million, which likely reflects the buying down effect (Figure 3). By region, Cape Town is the best performing metro, while Johannesburg sits at the bottom of the pack (Figure 4). In part, this reflects the semi-gration patterns, wherein affluent individuals are selling inland property, and buying in the coastal regions, particularly in the Western Cape.

We expect the weak house price growth trajectory to continue for a little while until inflation and borrowing costs ease more meaningfully from 2H24. Year-to-date (January to November), house price appreciation averaged 1.6%, consistent with our

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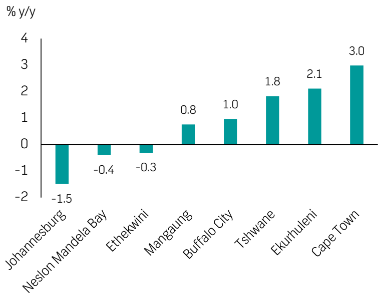
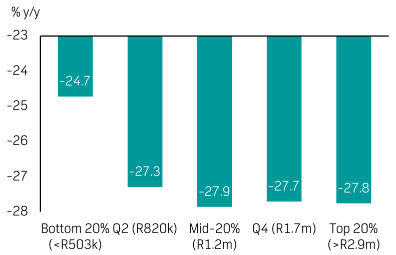
Figure 4: Average house price growth in Metropolitan areas: 3Q23*



Source: Deeds, FNB Economics

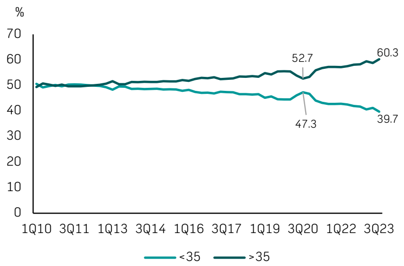
**Note: Data are preliminary*

Figure 5: YDT change in mortgage volumes by price quintiles



Source: Deeds, FNB Economics

Figure 6: Share of volumes by age group



Source: Deeds, FNB Economics

prediction of 1.5% on average for 2023. While price growth should bottom in 4Q23, recovery will likely be moderate as interest rates gradually decline, and demand in the interest-rate sensitive segments slowly returns.

Feedback from estate agents continues to illustrate weakening buying activity, though short-term expectations are now showing signs of optimism. Year-to-date (January to September), new mortgage volumes have declined by 27% according to the latest available Deeds registrar data. The decline is more pronounced in higher priced segments, with the more affordable segments of the market supported by the downscaling trend. Volumes in the bottom 20% bucket, with an average purchase price of approximately R500,000, are 24.7% lower compared to the same period last year. In contrast, volumes in the top 20% (average R2.9 million) are down 27.8% (Figure 5).

Furthermore, younger buyers (including first-time buyers) have been more despondent. The share of mortgage volumes attributed to individuals aged below 35 has declined from the most recent peak of 47.3% in 3Q20 to 39.7% in 3Q23 (Figure 6). This reflects the disproportionate impact of subdued economic activity and high interest rates on younger individuals, while stronger balance sheets often insulate older individuals. Overall, these trends align with our expectations and reflect higher debt servicing costs, reduced affordability, and tighter lending standards (see our report).

Our projections of slightly lower interest rates and moderately better growth outcomes should help stabilise mortgage volumes next year. We expect volumes to decline by around 30% this year, and partially recover by 5% in 2024.

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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	4.9	4.5	4.1	3.7	3.5	3.3	3.4	3.7
2022	3.8	4.0	4.2	4.0	3.8	3.6	3.4	3.4	3.1	3.2	3.2	3.1
2023	2.8	2.6	2.5	2.3	2.0	1.6	1.1	0.7	0.5	0.4	0.5	

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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.