Property barometer

9 May 2024

0.8% ↔	50.65 ↑	10 weeks and six days ↓
y/y FNB HPI	Market strength index	Time on market

A sideways movement in house prices, outlook slightly dimmer

The FNB House Price Index growth averaged 0.8% in 1Q24, unchanged from 4Q23, and echoes our view of a hesitant house price growth trajectory in the near term. The elevated living and borrowing costs, as well as heightened political uncertainty both domestically and internationally, are weighing on transaction activity, and ultimately, property prices. Nevertheless, wide disparities are evident across regions. Generally, larger non-metro regions are seeing stronger house price growth relative to the traditional metropolitan cities (Figures 1 and 2). Demand in these regions gained support from the semi-gration trend.

Figure 1: House prices in Metros

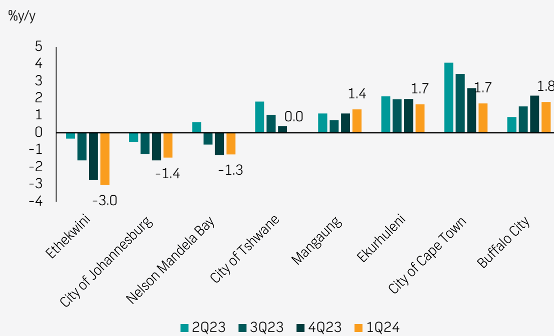


Figure 2: House prices in Non-metro regions

Source: Deeds Office (own calculations), FNB Economics

Property prices continue to slide across most emerging economies, largely due to weaker labour markets and stretched consumer affordability. However, Latin American countries, particularly those that have started easing interest rates, such as Brazil and Colombia, are seeing a resurgence in property prices. By contrast, tighter labour markets and severe housing supply shortages across advanced economies continue to boost property prices, despite the high interest rate environment (Figure 3 and 4).

Economists

Siphamandla Mkhwanazi
Koketso Mano

Statistician
Sameel Ambaram

Contact us:

Website: www.fnb.co.za/economics-commentary
Email: Siphamandla.Mkhwanazi@fnb.co.za
Tel: 087 312 3280

Property barometer

Figure 3: Global house prices: DM vs EM

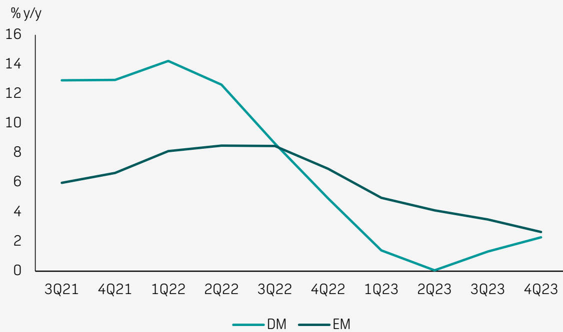
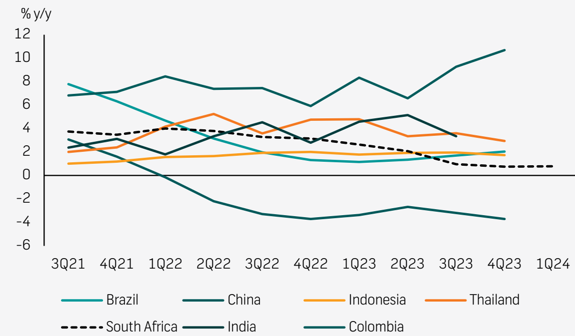


Figure 4: House prices in EM



Source: BIS, FNB Economics

Assessing market conditions

Our market strength indicators suggest that weakened in 1Q24, in line with high borrowing costs. By contrast, our estate agents survey revealed a recovery in activity levels, which is now in line with the long-term average since the inception of the survey in 2007 (Figures 5 and 6). This culminated in a slight reduction in the time it takes to sell a property in 1Q24, although this varies markedly across the price spectrum. That said, agents are highly sceptical that these improvements will be sustained in the short term, with only 37% expecting further gains in 2Q24.

Figure 5: Estate agents' activity rating

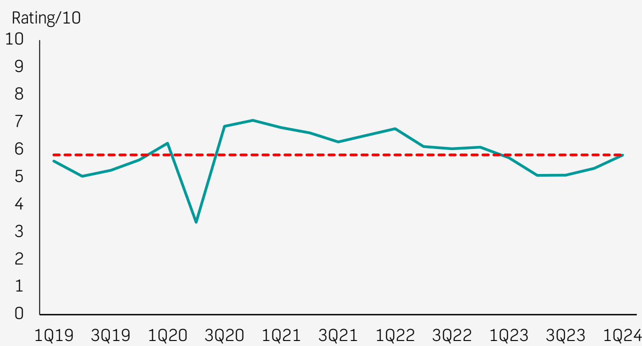
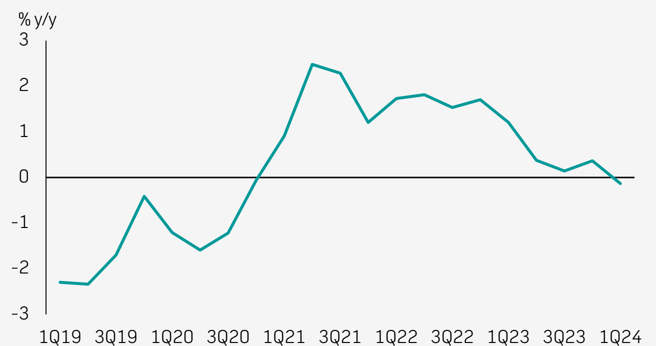


Figure 6: Property valuers' strength index



Source: FNB Economics

The loan-to-price ratio, derived from Deeds data[1], ticked up to 95.6% in 1Q24, from 94.3% previously, likely due to intensified competition for customers with stronger balance sheets. This is evidenced by more onerous downpayment requirements in lower cost segments (bottom 40%), while they eased in pricier segments, relative to the previous quarter (Figures 7 and 8).

[1] Deeds data comes with an admirative lag of at least three months. As such, data referred to here is preliminary.

Property barometer

Figure 7: Loan-to-price ratio

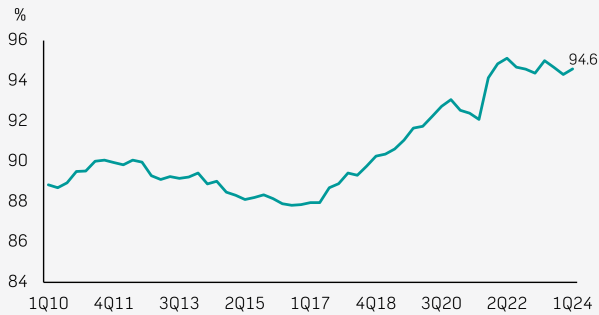
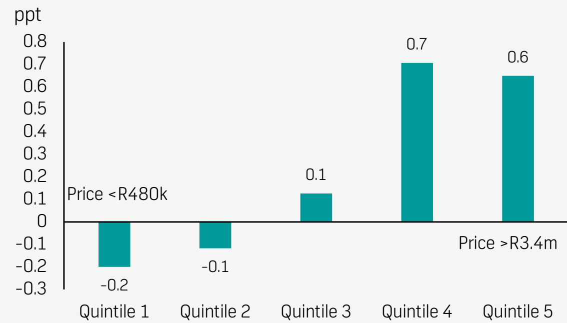


Figure 8: Loan-to-price ratio: q/q changes by price segment



Source: Deeds Office (own calculations), FNB Economics

This arguably reflects tighter lending standards, consistent with deteriorated affordability and elevated credit defaults. The most recent NCR data suggests that credit defaults have risen substantially across all credit types, with mortgages more severely affected (Figures 9 and10). Nevertheless, unsecured credit has the highest default rate, at 17.9% in 4Q23, approximately three times that of mortgages and other secured credit.

Figure 9: Credit defaults by type of credit

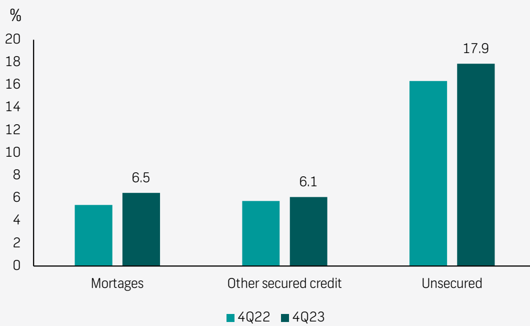
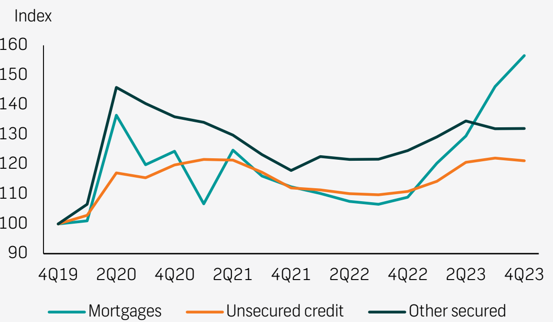


Figure 10: Evolution of credit defaults by type of credit



Source: NCR (own calculations), FNB Economics

Revisiting our property market outlook

Recent data suggests that economic activity in the US remains stronger, and inflation stickier, relative to our earlier expectations. Furthermore, communication from the Fed makes it clear that interest rates will be kept high for as long as it takes to lower inflation to target. As such, we now expect the US Fed funds rate to remain higher for longer, with the first cut pushed out from June to September. The expected cutting cycle is also shallower in the near-term than initially envisaged, with a cumulative 75bps cuts over the next year, versus 125bps previously. Here at home, the SARB has strongly signalled a shift in the inflation objective, from the current 4.5% soft target to 3%. However, the exact timing of the official adoption of this target is uncertain,

suffice to say that rates may need to be restrictive for longer, to align policy with this lower target and guide inflation accordingly. To account for these developments, our repo rate forecast has been adjusted to show a delayed and shallower cutting cycle. We have pushed out the first cut from July to November this year, with rates reaching 7.5% by the end of next year, versus 7.0% previously. Importantly, however, there is a downside risk to the repo rate over the medium-to-longer term as lower borrowing costs would be supported by SA being more competitive in capital markets. In addition, less exchange rate depreciation would support slower and more stable inflation, entrenching its fall towards 3% and reinforcing the path to structurally lower interest rates. So far, we see inflation averaging 5.2% this year, and drifting lower to 4.7% and 4.5% in 2025 and 2026, respectively.

Given our updated interest rates view, and weaker-than-expected economic activity during the first quarter, our GDP growth projections have been tweaked slightly lower (by 0.1ppt) throughout the forecast horizon. We now expect growth to average 1.2% this year (1.3% previously), before lifting to 1.5% and 1.6% in 2025 and 2026, respectively.

The net result of these forecast changes is a housing market recovery that is slightly delayed, with a slightly lower trajectory relative to our earlier expectations. Risks to this view are tilted to the upside, in line with our repo rate view. Nevertheless, our core views on the domestic residential property market have not changed (see our original outlook here and a supplement note here).

Figure 11: Repo rate forecast

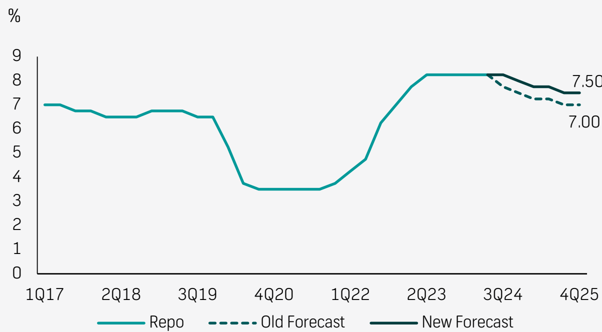


Figure 12: House price forecast

Source: FNB Economics

Property barometer

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.

Disclaimer

First National Bank A division of FirstRand Bank Limited. An Authorised Financial Services and Credit Provider (NCRCP20).

The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by Firstrand Group Limited and/or the authors of the material.