Property barometer

10 May 2024

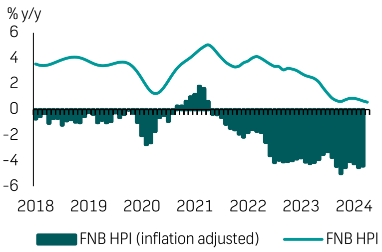
0.6% ↓
y/y FNB HPI

50.50 ↓
Market strength index

10 weeks and six days ↓
Time on market

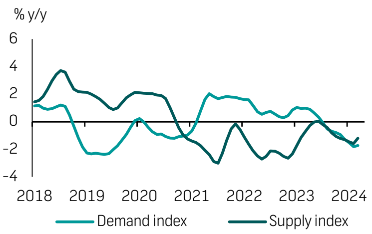
Affordability remains a challenge, overall uncertainty dampening housing market activity

Figure 1: FNB HPI



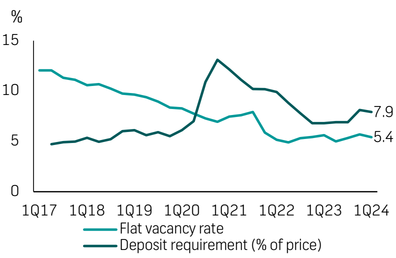
Source: FNB Economics

Figure 2: Market Strength Indices



Source: FNB Economics

Figure 3: Rental vacancies vs downpayment requirements



Source: Deeds Office (own calculations), Rode, FNB Economics

Forecast changes

Our recent analysis indicates the US economy is performing stronger than anticipated, with inflation remaining more persistent. This leads us to believe that the US Federal Reserve will keep interest rates higher for a longer period, with the first reduction potentially delayed from June to September this year.

In South Africa, the South African Reserve Bank (SARB) has signalled a potential shift towards a stricter inflation target of 3%, compared to the current 4.5% target. However, the exact timing of this change remains unclear. This potentially means keeping interest rates higher for a longer period to achieve this new target and control inflation. As a result, we have adjusted our forecast for the repo rate, predicting a slower and delayed decrease with some potential downside risk in the medium to long term.

Impact on housing market

These adjustments lead us to expect a delayed recovery in the housing market, with a slightly lower overall growth trajectory compared to our previous forecast.

Current market conditions

The FNB House Price Index growth averaged 0.6% y/y in April, slightly lower than the 0.7% in March (Figure 1). Market strength indicators, derived from the property values database, suggests both buyer demand and seller supply are shrinking (Figure 2). High borrowing costs and uncertainty are discouraging potential buyers, while unfavourable selling conditions are disincentivising some homeowners from listing their properties.

The rental market also shows a slow recovery. Rental inflation has risen slightly to 3.3% in 1Q24 from 3.1% previously but remains below overall inflation. Landlords are competing to retain tenants in a market with more available options. Rode's

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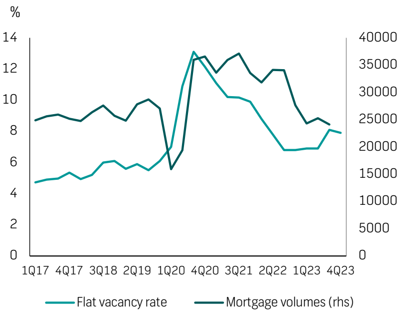
Figure 4: Rental vacancies vs Mortgage activity



Source: Deeds Office (own calculations), Rode, FNB Economics

residential survey data suggests that flat vacancy rates have decreased slightly to 7.9% in 1Q24, from 8.1% in 4Q23, but remain above the pre-pandemic average of 5.3%. While high interest rates could favour renting over buying, lenders have lowered their down payment requirements, partially offsetting the rental market advantage (Figures 3 and 4). Slow employment growth further contributes to the sluggish rental market recovery.

Conclusion

While some of the previously identified risks have materialised, prompting adjustments to our forecast, our core view remains unchanged (see our quarterly report for details). We now anticipate a delayed housing market recovery with a slightly lower growth path. The upside risks to this view are aligned with our revised repo rate forecast.

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	2.4	2.3	2.0	1.5	1.1	0.7	0.6	0.6	0.7	0.8
2024	0.9	0.8	0.7	0.6								

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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.