Property barometer

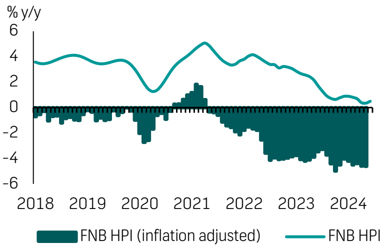
9 July 2024

0.5% ↑
y/y FNB HPI

50.42 ↓
Market strength index

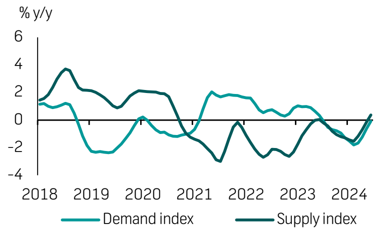
12 weeks and two days ↑
Time on market

Figure 1: FNB HPI



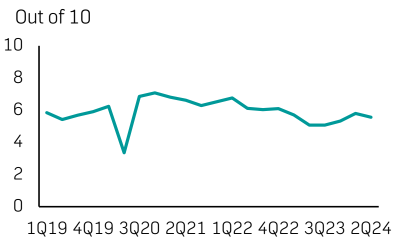
Source: FNB Economics

Figure 2: Market Strength Indices



Source: FNB Economics

Figure 3: Estate Agents' Activity Rating



Source: FNB Economics

A marginal improvement in house prices, from a low level

The FNB House Price Index edged up to 0.5% year-on-year (y/y) growth in June, a slight improvement from 0.3% in May (Figure 1). The low house price growth trajectory aligns with expectations given the persistent high living and borrowing costs. Notably, lower-priced segments and non-metro regions continue to perform better. Market strength indicators suggest a potential stabilisation in supply and demand dynamics, following a period of decline (Figure 2). We maintain a cautiously optimistic outlook for the remainder of the year. Slower price increases and the possibility of interest rate cuts support the bottoming out of buying activity. Additionally, if the new administration implements pro-growth policies, lower interest rates could further support potential buyers and lead to a revitalised housing market.

Below, we summarise the latest FNB Estate Agents Survey.

Estate Agents Survey results: Election jitters and affordability concerns stall housing market in 2Q24

The latest Estate Agents Survey reveals a housing market weighed down by election anxiety and persistent affordability constraints. Market activity ratings dipped to an average of 5.6 in 2Q24, from 5.8 previously - remaining below the long-term average of 5.9. However, the reading is above the most recent lows, which suggests that a potential bottoming out occurred between 2Q23 and 3Q23 (Figure 3). This slowdown aligns with agent expectations and highlights buyer hesitancy, likely due to election uncertainty.

Affordable housing segment offers a glimmer of hope

The survey also shed light on a resilient bright spot: the affordable housing market. This segment recorded a higher activity rating (7.4) compared to the traditional market (5.0). Following the recent support from ultra-low interest rates, buying activity in this segment appears to be further supported by a search for less expensive properties, as elevated interest rates and stricter lending standards stretch affordability for many. (Figure 4).

Economists

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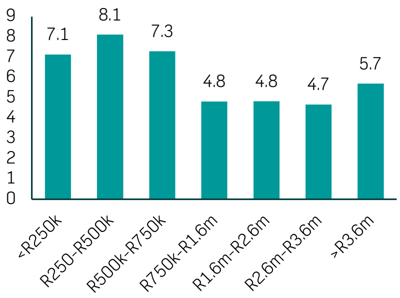
Regional disparity and buyer caution

The data also exposes regional variations. Eastern Cape and KwaZulu-Natal saw improved activity, while Gauteng and Western Cape experienced a decline. While this emphasises the uneven impact of economic factors across different regions, it also highlights structural constraints and a recovery following civil and climate-related disruptions. Ultimately, lingering concerns about affordability, political instability, and job security continue to dampen overall market sentiment. This is reflected in the declining forward-looking indicator, with only 26% of respondents expecting a rise in activity for 3Q24 (down from 28% for 2Q24). Put differently, approximately 75% of agents do not expect to see an improvement in the level of activity in 3Q24.

Figure 4: Estate Agents' Activity Rating by price bracket

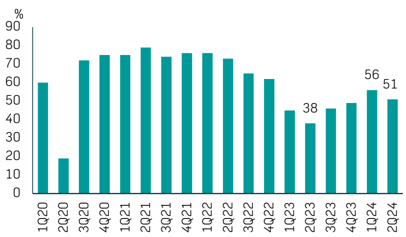


Source: FNB Economics

Extended selling times and agent sentiment

The slowdown in activity translates to longer selling times. Properties remained on the market for an average of 12 weeks and two days in Q2, up from 10 weeks and six days in Q1 (Figure 4). This weakness affected all regions and price points. Consequently, agent sentiment soured, with agent satisfaction dropping from 56% to 51% (Figure 5). Interestingly, this decline aligns with weaker sentiment in the interest-rate sensitive new vehicle dealer sector, but contrasts with broader economic sentiment as reflected in the RMB/BER Business confidence index for Q2.

Figure 5: % Agents satisfied with market conditions



Source: FNB Economics

Financial pressures and downscaling with life-stage drive sales

The survey also dives into the motivations behind property sales. Downscaling due to life stage, which includes those moving to retirement homes, remains the most common reason in South Africa, accounting for 22% of total sales (Figure 6). Financial pressure-induced sales rose slightly to 21% in Q2, aligning with the historical average and suggesting a persistent trend of sellers motivated by high debt-service costs. Interestingly, the survey reveals a preference among these financially motivated sellers to downsize rather than rent, reinforcing the continued buying-down trend. Relocation within South Africa (semi-gration) remained steady at 14%, exceeding the long-term average. Upgrading activity, however, slowed significantly to 11%, reflecting a cautious approach by homeowners in the current market climate. Emigration-related sales remained unchanged at 8%, highlighting a shift away from the peak observed in 2019.

Overall, the Estate Agents Survey paints a picture of a housing market in cautious mode. Affordability concerns, election anxiety, and high interest rates dampened activity and agent sentiment in Q2. However, the resilience of the affordable housing segment and pockets of regional strength offer some tentative signs of hope.

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Figure 6: Most common reasons for selling: 2Q24

Reason for selling (% of total sales)	Aggregate	<R250k	R250k-R500k	R500k-R750k	R750k-R1.6m	R1.6m-R2.6m	R2.6m-R3.6m	>R3.6m
Downscaling due to financial pressure	21.5	26.3	19.7	28.5	23.7	18.6	19.0	16.8
Downscaling with lifestage	21.7	14.9	15.8	8.1	22.1	25.5	26.7	26.2
Emigrating	7.7	3.4	0.7	6.7	5.9	9.1	11.9	11.5
Relocating	13.9	13.1	16.7	10.6	13.4	15.5	14.0	13.8
Upgrading	11.2	15.8	26.1	18.1	8.7	9.1	7.3	9.7
Moving for safety and security reasons	8.2	14.0	11.1	11.5	9.9	6.1	3.8	4.8
Change in family structure	10.8	6.2	2.0	7.8	10.8	12.3	14.2	13.7
Moving to be closer to work or amenities	5.0	6.3	8.0	8.7	5.5	3.7	3.3	3.5

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	4.9	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	0.4	0.3	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.