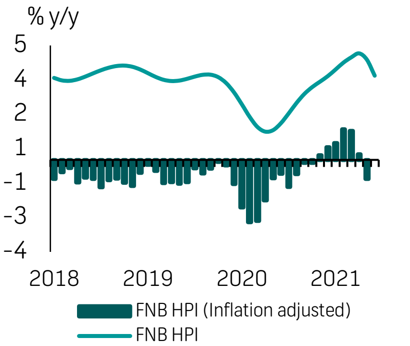
July 2021

Property Barometer.

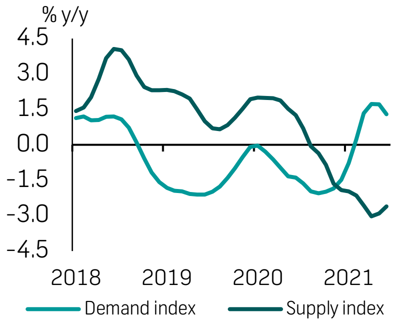
3.7%	4.2%	49.40	8.0
y/y FNB HPI	q/q FNB HPI	market strength index	weeks on market

Figure 1: FNB HPI



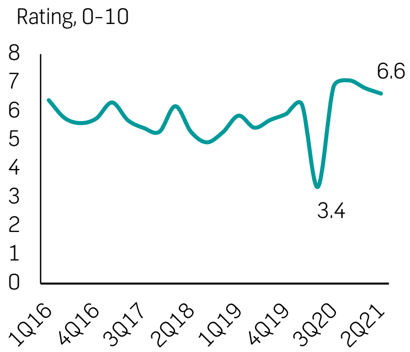
Source: FNB Economics

Figure 2: FNB Market strength indices – Growth in demand may have peaked



Source: FNB Economics

Figure 3: Estate agents' activity moderating



Source: FNB Economics

FNB Estate Agents Survey: Still strong, but market activity moderating

Key themes

- Our proprietary market strength indicators show that demand is now moderating, following a strong rebound in 2H20 and into 2021. However, these remain above pre-pandemic levels, in part reflecting the positive effect of lower interest rates on market activity.
- Current activity also reflects pandemic-induced shifts in consumer behaviour: with the greater adoption of work-from-home and homeschooling, households had to re-evaluate their housing needs, which leant in favour of home ownership.
- The FNB Estate Agents Survey shows moderating near-term activity expectations. As expected, these vary markedly across segments, with the affordable market more upbeat.
- Liquidity remains intact: mortgage extension continues to grow at a faster pace, and loan-to-price ratios remain high. Our investigations show that much of this credit is funding purchases in the middle- to upper-priced segments.
- Longer-term demand fundamentals remain a constraint: the latest data shows a slow re-adjustment in labour markets, which could weigh on wage income growth. However, we note a potential upside on non-wage income, especially dividend income, which could ameliorate income growth for upper-income households.

Annual house price growth decelerates again in June

The FNB HPI annual house price appreciation for June decelerated to 3.7% y/y, from 4.2% in May (revised up from 4.1%). The slowing pace of price growth coincides with the slowing of our propriety demand indicators, namely the demand strength indicator derived from our property valuers' database as well as internal volumes of mortgage applications. Both indicators declined in the past three months, perhaps suggesting that the interest rate-induced demand may have peaked, following a strong rebound in 2H20 and into 2021. The latest FNB Estate Agents Survey also shows activity of estate agents is moderating. However, all these remain above pre-pandemic levels, still reflecting the positive effect of lower interest rates on market activity. In this report we identify two surges in demand and show that these have been driven by different types of buyers.

Insights from the FNB Estate Agents Survey

Market Activity: Estate agents' rating of activity (a rating between 1 and 10) slipped lower in 2Q21, to 6.62 down from 6.81 in 1Q21. The affordable market (< R750k) ranked as the most active segment, followed by the R2.6m-R3.6m price bucket, as buyers continue taking advantage of low interest rates. Activity in higher-priced segments is reinforced by incidents of upgrading, which, in our view, is driven by the changing housing needs due to the pandemic

Economist

Siphamandla Mkhwanazi

Statisticians
Mandisa Zokufa
Kamenee Govender

Contact us:

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

(greater adoption of working from home and homeschooling).

Time on market: Following sustained improvements in the past few quarters, time on market moved broadly sideways to 8 weeks, from 8 weeks and 2 days in 1Q21. This is significantly shorter than the long-term average of 13 weeks, but longer than the 5 weeks and 1 day recorded in 2Q04, at the height of property price boom in South Africa. The improvement was mainly in the affordable segments, with an average of 5 weeks and 5 days (7 weeks and 6 days previously). Interestingly, the cycle appears to be turning in the 1.6m-R2.6m price bucket, which had recorded the best times in the last two quarters. In 2Q21 the time on market lengthened to 8 weeks and 1 day, from 6 weeks and 6 days previously. Other segments moved sideways, with the > R3.6m segment recording 11 weeks and 1 day. Overall, improvements in the time on market could also be due to greater adoption of technology, which in some markets has shortened the search costs, including time spent comparing properties.

Price realisation: Discount on asking prices narrowed further to 8%, from 9% in 1Q21. This is the lowest since 2Q19 and falls slightly below the long-term average of 10%. While this gives us clues about market-power balances, it could also be indicative of sellers who are becoming more realistic about setting their asking prices.

Satisfaction with market conditions: Sentiment sweetened slightly 2Q21, with 79% of interviewed agents expressing satisfaction with prevailing conditions, up from 75% in the previous quarter. This has improved considerably from a low of 19% in 2Q20 at the height of lockdown restrictions. This improvement in sentiment was mainly driven by a strong recovery in the upper-priced segments, on the back of improved buying activity. Separately, we note a potential upside on non-wage income, especially dividend income, which could ameliorate income growth for upper-income households. By region, sentiment is strongest in Eastern Cape and Western Cape.

Expectations of future activity: Agents' expectations of near-term activity continued moderating, with only 25% of interviewed agents expecting near-term activity to increase from current levels. This is down from 50% in 3Q20, when lockdown restrictions were lifted and the market experienced pent-up demand. As expected, expectations vary markedly across segments: 60% of interviewed agents in the affordable market (< R750k) were upbeat about near-term activity versus only 13% in the conventional market.

Reasons for selling: Downgrading due to financial pressure remains one of the key reasons for selling property in SA, accounting for 21% of transactions in 2Q21, unchanged from the previous quarter. These trump upgrading incidents (i.e. selling to move to a bigger or more desirable property), which accounted for approximately 16% of transactions in 2Q21, also unchanged from the previous quarter. Both downgrading and upgrading incidents are currently above their long-term averages of 18% and 13% respectively, and attest to the uneven impact of the pandemic across consumer segments. Notably, emigration incidents continue a declining trend, with agents reporting that these declined to 7% of transactions in 2Q21 from 10% in 1Q21 (2q moving average). Slowing emigration is supportive of price growth in the upper-priced segments.

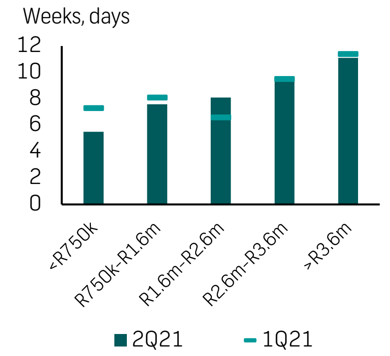
Outlook

We have lifted our house price growth forecast across all segments to reflect better-than-expected actual house price performance outcomes and a slightly brighter GDP growth outlook. This adjustment incorporates stronger than previously assumed demand for mortgages across all segments. Pressure in the higher end is also lessened by a reduction in supply, due to owners withdrawing properties for sale from the market as well as a slower rate of emigration. Price growth in the lower end continues to enjoy support from the persistent supply deficit.

Middle segments are buoyed by low interest rates as well as demand for bigger spaces to facilitate remote work, which has seen tenants switching from renting to owning. However, it is unlikely that there is much of this demand left in the tank. As pressure in the rental market persists, we expect more stock to be released into the market for sale, which could have a dampening effect on price growth in the coming months.

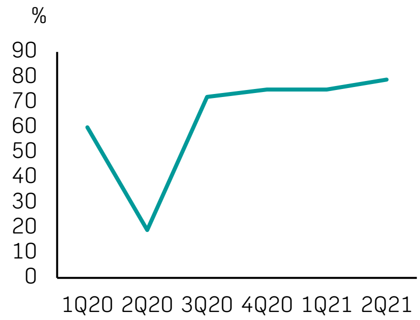
Overall, property prices have been unusually slow to adjust to the evidently weak consumer fundamentals. This is due to low interest rates; the nature of the crisis, which incentivised property ownership; the concerted response from lenders that smoothed the impact of

Figure 4: Time on market steadying around 8 weeks



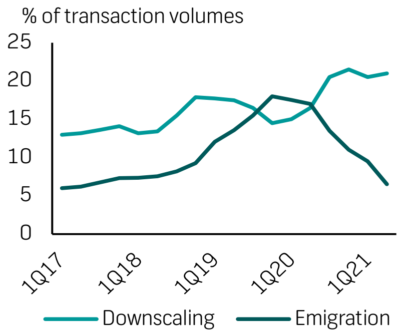
Source: FNB Economics

Figure 5: Sentiment holding steady



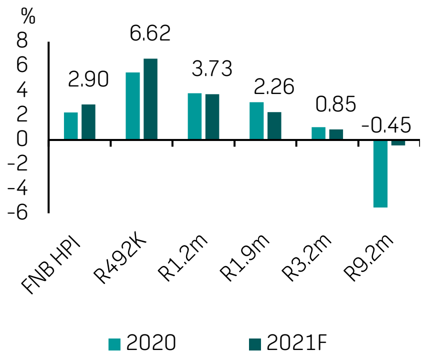
Source: FNB Economics

Figure 6: Downscaling remains elevated, emigration-related sales slowing



Source: FNB Economics

Figure 7: Forecast by price segment



Source: FNB Economics

severe job losses on housing markets (e.g. through payment holidays and loan restructuring); as well as the relative abundance of credit, as evidenced by rising mortgage extension and higher loan-to-price ratios. Nevertheless, recent data shows that overall demand may have peaked, but remains above pre-pandemic levels. However, it is still unclear how much of the current demand is temporary (i.e. driven by cyclical factors, such low interest rates) and how much is permanent (i.e. driven by changes in human behaviour). This will determine how long demand will remain above pre-pandemic levels.

Figure 8: FNB Estate Agents Survey – Reasons for selling

	2Q21	<R750k	R750k-R1.6m	R1.6m-R2.6m	R2.6m-R3.6m	>R3.6m
Downscaling due to financial pressure	21	22	17	18	22	22
Upgrading	15	16	18	18	8	16
Downscaling with life-stage	23	23	23	25	23	23
Sacurity concerns	6	4	8	6	3	7
Emigrating	7	7	8	8	8	7
Relocating	9	10	13	8	8	10
Change in family structure	12	10	11	10	17	10
Moving to be closer to work or amenities	6	5	3	7	9	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	3.1
2020	2.5	1.9	1.3	1.2	1.3	1.6	2.0	2.5	2.9	3.2	3.4	3.7
2021	3.9	4.2	4.5	4.6	4.4	3.7						

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.

First National Bank **A division of FirstRand Bank Limited.** An Authorised Financial Services provider. Reg No 1929/001225/06.

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.