April 2021

Property Barometer.

4.2%	0.1%	8.2	9%
y/y FNB HPI	m/m FNB HPI	weeks on market	average discount

Home-buying market showing resilience, for now

Key themes

- Interest rate-induced demand remains strong; internal data shows bias toward middle-income segments.
- Data from the FNB Estate Agents Survey and FNB's Property Valuers database both show continued growth in demand and retreating supply.
- Incidents of downscaling due to financial pressure remain elevated, although lower compared to during the GFC. Latest data shows these to have increased slightly in higher-income categories, but moderated in lower-income categories in 1Q21.
- Rental market pressures persist; vacancy rates are climbing and rental escalations slowing. Anecdotal evidence shows that some of this stock is being released into the market for sale.
- Labour market weaknesses remain a major concern. Latest job numbers revealed that losses have migrated to more "white collar" workers.

Annual house price growth accelerates in March

The FNB HPI annual house price appreciation for March rose to 4.5% y/y, up from 4.2% in February, as demand continues to outperform expectations. We note from our estate agents survey that 75% of interviewed agents reported "shrinking supply as sellers withdraw properties from market/reluctant to put properties up for sale". Indeed, our internal demand-supply indicator, derived from the property valuer's database, shows demand to be growing faster than supply. Low interest rates, the nature of the pandemic itself, and lenders' willingness to offer financial support created an incentive for owners to hold on to their assets, despite weak consumer fundamentals.

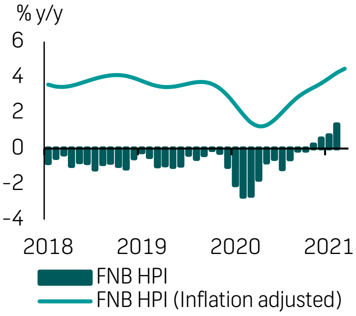
Insights from the FNB Estate Agents Survey

Market Activity: Estate agents' rating of activity (a rating between 1 and 10) slipped lower in 1Q21, to 6.81, down from 7.08 in 4Q20. The R1.6m-R2.6m price bucket rated the highest, followed by the R2.6m-R3.6m price range as buyers continue taking advantage of low interest rates.

Time on market: Improved further to 8 weeks and 2 days, down from 9 weeks and 4 days. The improvement was across the price spectrum, with the R1.6m-R2.6m bracket recording the shortest time at 6 weeks and 6 days, followed by affordable market (<R750k) at 7 weeks and 3 days. Within the affordable market, properties in the R500k-R750k band stayed on market for 5 weeks and 6 days. By contrast, the >R3.6m averaged 11 weeks and 4 days in 1Q21.

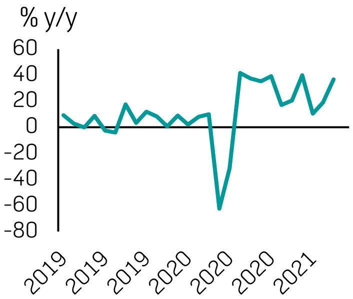
Price realisation: Discount on asking prices narrowed further to 9%, from 10% in 4Q20. This is the lowest since 2Q19 and falls slightly below the long-term average of 10%. We note that the improved affordability (lower acquisition and repayment costs) and still strong demand offered sellers some room to negotiate: 74% of properties in 1Q21 sold below initial asking

Figure 1: FNB HPI



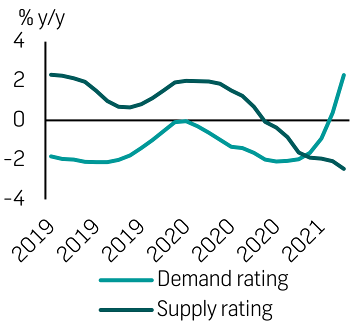
Source: FNB Economics , Stats SA

Figure 2: Percent growth in mortgage applications



Source: FNB Economics

Figure 3: Property Valuers – Demand-Supply indicators



Source: FNB Economics

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price, down from 80% in 1Q20. That is, more sellers were able to attain their asking price in 1Q21 compared to a year ago, pre-pandemic. However, this varies markedly across the price spectrum. Agents estimate that 87% of properties in >R3.6m and only 44% in the affordable market (<R750k) sold below the initial asking prices.

Satisfaction with market conditions: Sentiment moved sideways in 1Q21, with 75% of interviewed agents expressing satisfaction with prevailing conditions. This has improved considerably from a low of 19% in 2Q20 at the height of lockdown restrictions. Once again, the R1.6m-R2.6m bracket scored the highest, while the >R3.6m bucket scored the lowest.

Expectations of future activity: Agents' expectations of near-term activity continued moderating, with only 33% of interviewed agents expecting near-term activity to increase from current levels, down from 50% in 3Q20. However, 51% in the affordable market expect activity to increase from current levels, indicating relative optimism in lower-priced segments.

Reasons for selling: Overall, incidents of property disposals due to financial pressure did not worsen further, averaging 21% of transactions in 1Q21. These, however, increased marginally across all higher-priced segments but moderated in the affordable market. Notably, emigration incidents continue a declining trend, with agents reporting that these declined to 10% of transactions in 1Q21 from 11% in 4Q20 (2q moving average). We continue to see significant upgrading incidents into higher-priced segments, as consumers respond to the demands of remote working and schooling. These sales accounted for approximately 16% of transactions in 1Q21, up from 13% in the previous quarter and 12% a year ago.

Outlook

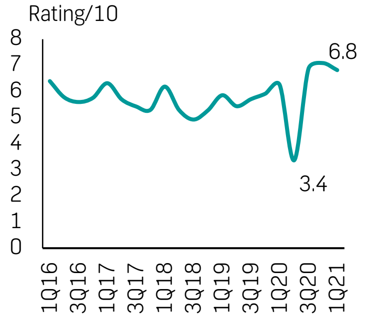
Available data shows that lower-end prices remain relatively strong but are decelerating, in line with the initial impact on labour markets. We expect this "correction" to continue, as employment takes time to recover. However, the inherent stock shortages will likely keep property values afloat. Indeed, estate agents operating in affordable segments still see demand outstripping supply.

Much of the reflation in 2H20 was driven by middle segments, buoyed by low interest rates as well as demand for bigger spaces to facilitate remote work. Part of this was also driven by tenants switching from renting to owning. It is unlikely that there is much of this demand left in the tank – Stats SA data shows that 66 000 professionals lost jobs in 4Q20, which does not augur well for mortgage demand. Furthermore, as pressure in the rental market intensifies, we expect more stock to be released into the market for sale. The combination of these factors is expected have a dampening effect on activity and, eventually, price growth in the coming months.

Prices in the upper end have, over a prolonged period, adjusted lower, due to receding demand and rising incidents of selling due to emigration. Available data shows properties in the top 1% price distribution declined by an average of 5.5% in 2020. For 2021 we expect less negative price growth, as owners delay their selling decisions due to unfavourable selling conditions and emigration trends lower (estate agents data shows these sales to have peaked in 2019).

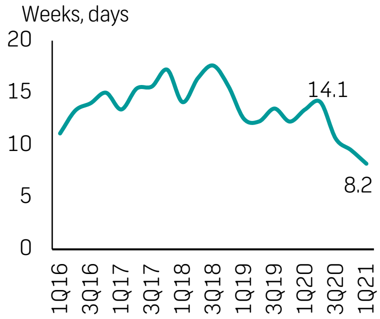
Overall, property prices have been unusually slow to adjust to the evidently weak consumer fundamentals. In part, this is due to the nature of the crisis, which incentivised property ownership, as well as a concerted response from lenders that smoothed the impact on housing markets (see [Box 1 in our previous report](#)).

Figure 4: FNB Estate Agents survey – Activity rating



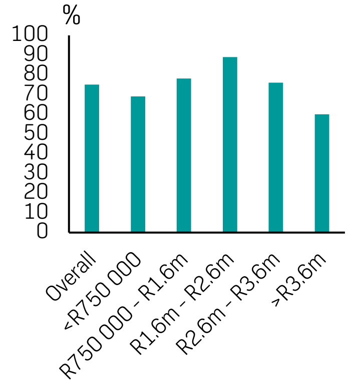
Source: FNB Economics

Figure 5: FNB Estate Agents survey – Time on market



Source: FNB Economics

Figure 6: FNB Estate Agents Survey – Satisfaction with market conditions



Source: FNB Economics

Figure 7: FNB Estate Agents survey – Reasons for selling

	1Q21	<R750k	R750k-R1.6m	R1.6m-R2.6m	R2.6m-R3.6m	>R3.6m
Downscaling due to financial pressure	21	23	22	21	18	18
Upgrading	17	21	16	15	17	14
Downscaling with life-stage	23	18	22	25	27	27
Security concerns	6	4	8	6	3	5
Emigrating	7	5	5	7	12	9
Relocating	9	9	9	8	9	11
Change in family structure	12	12	12	13	11	12
Moving to be closer to work or amenities	6	8	7	5	3	4

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									

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 over the past 18 years.

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.