Property Barometer.

April 2019

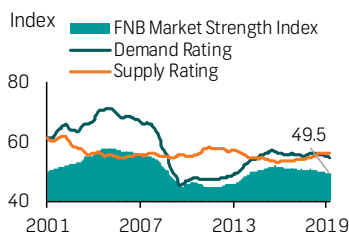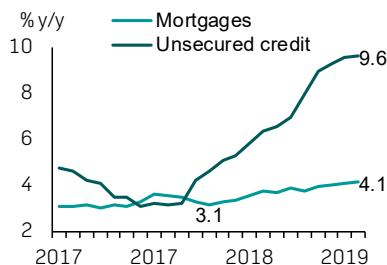| **3.8%**	**0.8**	**49.46**
y/y FNB HPI	m/m FNB HPI	FNB Valuers' Market Strength Index

Figure 1: FNB HPI
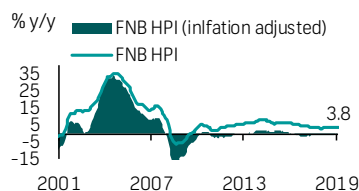
Source: FNB

Figure 2: FNB Valuers Market Strength Index

Source: FNB

Figure 3: Mortgages vs unsecured credit

Source: SARB, FNB

FNB House price relatively flat in March

HPI: A softer start to 2019

The FNB HPI was relatively flat at 3.8% y/y in March, versus 3.7% y/y in the previous month. This takes the first quarter nominal house price growth to 3.8% y/y, slightly softer compared to 4Q18 (4.1%), but much stronger compared to 1Q18 (3.2%). This means that house price appreciation still languishes below inflation, reflective of the enduring pressure on household incomes amid a depressed macro-economic environment.

Market activity indicators remain subdued

FNB's valuers rate current residential housing demand as weakening and supply strengthening. We note, however, that the pace at which properties are entering the market has slowed noticeably in recent months. This, however, has not been enough to prevent a modest shift in the balance of demand and supply in favour of buyers. Consequently, we saw a further decline in the FNB Market Strength Index to reach a reading of 49.46, keeping it below the 50 mark for the tenth consecutive month. This below-50 reading means that valuers rate residential supply as stronger than demand (explanatory notes at the end of the report).

These trends aptly explain the declining real house prices and suggest that the market remains slightly in favour of buyers. Indeed, the FNB Estate Agents Survey results show that between 2016 and 2018, the proportion of properties sold below asking price averaged 91.6%, compared to an average of 85.2% three years earlier (an increase of 6.4 ppt).

In contrast to accelerating mortgage advances

Mortgage advances have been cautiously accelerating for the last 11 months or so, reaching a pace of 4.1% y/y by February 2018, the highest in 31 months. This acceleration, however, still lags behind the pace of other credit types such as unsecured credit and vehicle asset finance. The upswing in mortgage advances contrasts with what the FNB Valuers' Market Strength Index implies, however – declining demand resulting in an index reading of below 50 points in the last ten months.

Analyst

Siphamandla Mkhwanazi

Zharina Francis (Statistician)

Contact us:

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

Renovations and alterations: Declining scale

The scale of alterations and renovations undertaken by households has been declining in the last two years, in line with the FNB/BER Residential Building Confidence Index. Data from Stats SA shows that residential building renovations and alterations reported as complete totalled 1.1 million m^2 in 2018, versus 1.2 million and 1.23 million in 2016. This amounts to a cumulative 10% decline between 2016 and 2018. By province, data further shows that this decline is mainly concentrated in the Western Cape and Gauteng, the two economic powerhouses, while KwaZulu-Natal and the rest of the provinces combined are experiencing a surge in the scale of renovations and alterations.

The completions data from Stats SA captures formal renovations, typically involving structural alterations. Anecdotal evidence, however, suggests that households could be favouring informal home improvements, typically of a smaller scale.

Outlook

The housing market continues to be weighed on by the depressed current macro-economic environment. The conflation of declining real wages; a higher tax burden weighing on disposable income levels; the higher fuel and utility prices; and the impact of load-shedding on employment prospects will likely dampen already low levels of consumer confidence, further weighing on demand. More positively, however, the SARB's decision not to hike interest rates as well as the affirmation of South Africa's credit rating by Moody's was a welcome reprieve. The benign global and domestic inflation environment suggests less pressure on the SARB to hike interest rates in our forecast horizon.

On balance, we expect house prices to reflect these fragilities and remain confined within the 3.5% to 4.5% range for an extended period. This lags behind our annual inflation forecast of 4.7% and 5.4% in 2019 and 2020 respectively. Ultimately, long-term prospects for the property market will pivot on the on the strength of the labour market and whether the current consumer reticence lifts after elections.

Data preview

The 1Q19 FNB Estate Agents Survey Results will come out next week and shed more light on market activity and sentiment. Quick recap of 4Q18 highlights:

- Time on market: Average time property is on the market eased to 15 weeks and 6 days, from 17 weeks and 6 days in 3Q18.
- Realised prices: 94% of properties sold below asking price, and sellers had to drop prices by an average of 9%.
- Reasons for selling: Downscaling because of life stage was still the most prominent reason for selling a property in SA, with such sales accounting for 23% of all sales. However, downscaling due to financial pressure was increasingly becoming prominent, averaging 19% of sales in 4Q18.

Figure 4: Renovations and Alterations
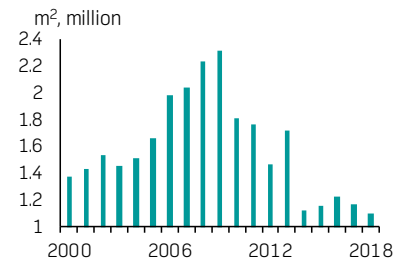
Source: Stats SA, FNB

Figure 5: Renovations and Alterations by province
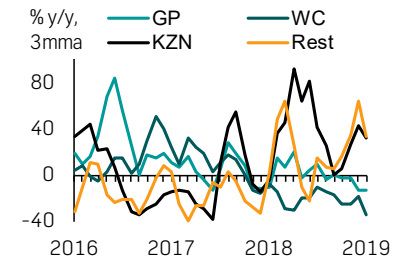
Source: Stats SA, FNB

Figure 6: Unsecured credit vs % homebuyers spending on improvements

Source: SARB, FNB

Monthly FNB House Price Index (%y/y)

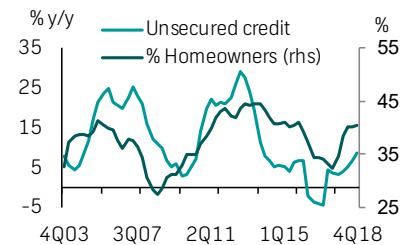|	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2001		-1.7	-0.7	-0.4	-0.5	0.7	3.0	5.9	8.6	10.6	11.6	11.8
2002	11.6	12.0	12.8	13.8	14.2	14.0	13.6	13.1	13.2	13.5	13.8	13.8
2003	14.0	14.5	15.3	16.2	17.1	18.2	19.3	20.3	21.4	22.9	24.7	27.0
2004	29.4	31.3	32.4	33.2	33.7	33.9	34.5	35.1	35.3	35.2	35.3	35.4
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	4.9	4.9	4.7	4.4	4.2	4.1	4.1	4.2	4.2	4.2	4.2	3.9
2018	3.3	3.1	3.3	3.7	4.1	4.2	4.2	4.0	4.0	4.1	4.1	4.1
2019	4.0	3.7	3.8									

Forecast

FNB SA Economic Forecast

Economic Indicator	2016	2017	2018	2019f	2020f	2021f
Household consumption expenditure %y/y	0.6	2.1	1.8	1.5	1.6	1.8
Government consumption expenditure %y/y	2.2	0.2	1.9	0.4	1.1	1.2
Gross fixed capital formation %y/y	-3.5	1	-1.4	0.2	0.5	1.1
Real GDP %y/y	0.4	1.4	0.7	0.9	1.2	1.2
Total exports %y/y	0.4	-0.7	2.6	2.2	1.4	1.8
Total imports %y/y	-3.9	1	3.3	2.1	2.2	2.4
Current account (% of GDP)	-2.8	-2.5	-3.5	-3.8	-3.7	-3.5
CPI (average) %y/y	6.3	5.3	4.6	4.7	5	5.2
CPI (year end) %y/y	6.7	4.7	4.5	5.1	4.9	4.9
Repo rate (year end) %p.a.	7	6.75	6.75	6.75	6.75	6.75
Prime (year end) %p.a.	10.5	10.25	10.25	10.25	10.25	10.25
USD/ZAR (average)	14.7	13.3	13.3	14.1	14.8	15.6

Source: FNB

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 a Hodrick-Prescott smoothing function with a Lambda of 5.

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.