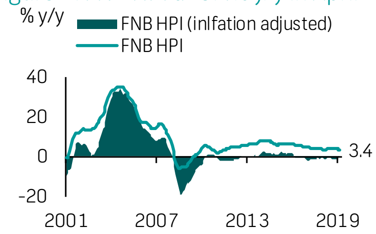
May 2019

Property Barometer.

3.4%	0.6	49.33
y/y FNB HPI	m/m FNB HPI	FNB Valuers' Market Strength Index

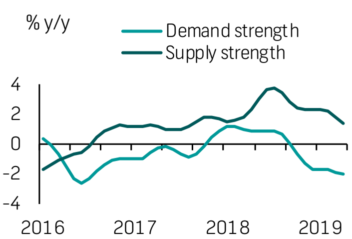
FNB house prices softened in April; first-time buyer participation recovering

Figure 1: FNB HPI at 3.4% y/y in April



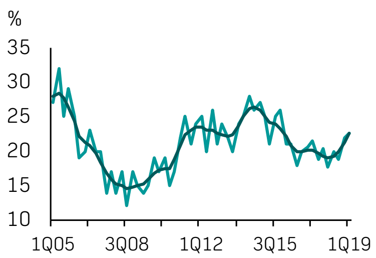
Source: FNB

Figure 2: Supply-Demand trends



Source: FNB

Figure 3: First-time buyer participation on the mend



Source: FNB

[1] Rode and Associates' estimations

Property market still oversupplied

The FNB HPI drifted lower in April, recording 3.4% y/y from a marginally downwardly revised 3.5% in the previous month (originally 3.8%). This takes the year-to-date nominal house price growth to 3.6% y/y, bettering the 3.2% recorded in the same period in 2018.

While the FNB Market Strength Index continues to gauge the market as moderately oversupplied, the pace at which properties are entering the market has slowed in recent months, suggesting that sellers have begun holding back stock amid low demand levels. However, this has not been enough to reverse the balance of demand and supply, which currently favours buyers.

Rental inflation has trended lower in the past twelve months, with the latest print showing an average escalation of 4.0% y/y, virtually flat from 4Q18. This is against the backdrop of a surge in the supply of new flats in the past twelve months or so, as well as rising vacancies in the rental market, estimated to have reached 7% in 1Q19 from 5.5% a year ago[1]. These trends are reflective of the enduring pressure on household incomes amid a depressed macroeconomic environment.

First-time buyer participation on the mend

Although purchasing activity remains muted, the proportion of first-time buyers has trended up in recent months, reaching an estimated 22.7% in 1Q19 from 17.6% in 1Q18, according to the agents' survey results. This is marginally above the long-term trend of 21.2%, but still below the peak of 32% in 2Q05, when lending standards were relatively easier and demand levels high.

Pretoria remains the most popular region, with first-time owners accounting for approximately 29% of all sales. We note, however, that Pretoria's favour is slowly waning, and appears to be migrating to Johannesburg. As shown in Figure 4, Pretoria peaked at 31.7% at the end of 2017, while Johannesburg troughed at 21.3% in 2Q18. Since then, the proportion of first-time buyers in Johannesburg has risen to 25.5% in 1Q19, while that of Pretoria dropped to 29%. The gap between the two cities will likely narrow further in the coming months.

Interestingly, first-time buyers are returning into the market in Cape Town, after a two-year affordability-induced "absence", during which first-timers on average

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accounted for approximately 7.5% of the market, climbing to 16% in 1Q19. We believe this to have been triggered by the recent price readjustments in the region, which resulted in relatively improved affordability. Part of this exuberance, however, is fuelled by "fears" that if they (first-time buyers) do not buy now, they may soon be priced out. Such purchases, according to the agents' survey, account for approximately 50% of all first-time buyer transactions in the region. This buyer behaviour is also prevalent in Durban, with an estimated 46% of aspiring home owners fearing that the market will soon outprice them (first-time buyers account for approximately 16% in the region).

Gauteng dragged the national average in 1Q19

The FNB provincial HPI shows that the Eastern Cape was the strongest performer in 1Q19, averaging 5.7% y/y, up from 5.2% in 4Q18. This outperformance was further corroborated by evidence from the estate agents' survey, which pointed to less severe demand-supply imbalances in the province. In particular, the average time a property remained on the market was estimated at 12 weeks and 2 days in 1Q19, versus the lengthier national average of 15 weeks and 3 days. Furthermore, the number of genuine viewers per show room was estimated at 13, versus a national average of 10.

On the opposite end of the spectrum, Gauteng was the weakest performer in 1Q19, with prices slowing to 1.3% y/y (2.3% y/y in 4Q18), the lowest since 2Q17. Demand-supply imbalances appear to be relatively more severe in Johannesburg, with average time-on-market estimated at 16 weeks and 5 days. In contrast the northern parts of the province, particularly Pretoria and surrounds, appear to be enjoying healthier levels of demand, with time-on-market estimated at 8 weeks and 5 days in 1Q19 – the best reading in the country.

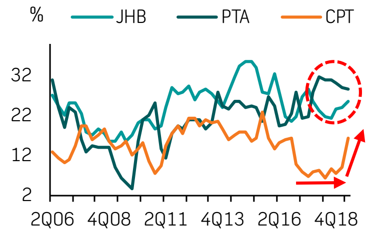
The resurgence in the Western Cape has lost momentum, with prices steadying around 4.6% y/y in 1Q19 from 4.8% in 4Q18. Nevertheless, the region still outperforms the national market on many fronts, with average time a property remained on the market estimated to be 11 weeks and 2 days in Cape Town.

In KwaZulu-Natal house price growth has slowed over the past nine months. Data from 1Q19 showed a modest 2.4% y/y, versus 3.7% in 4Q18. This ties in with the agents' perceptions that the demand-supply imbalance is relatively more severe in the region, with the average time a property remained on market being estimated at a lengthy 23 weeks and 3 days in Durban, versus the national average of 15 weeks and 3 days. This outcome is in line with consumer sentiment, which appears to have soured significantly in the region. According to the FNB/BER Consumer Confidence Index, the indicator for KZN registered -15 points in 1Q19; significantly worse than the country average of 2.

Outlook

The housing market continues to be weighed on by the depressed current macroeconomic environment. Declining real wages; a higher tax burden weighing on disposable income levels; the higher fuel and utility prices are weighing on demand. While we expect a transitory boost in sentiment post elections, it may take a while before it permeates into an acceleration in house prices, particularly since the market is currently oversupplied. More positively, the rising trend of first-time buyer participation should go some way in mopping up this excess.

Figure 4: First-time buyer still favours Pretoria

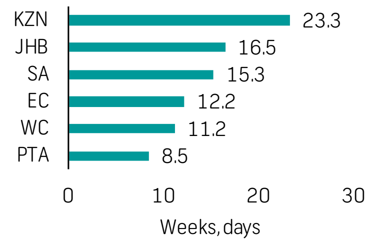


Source: FNB

Figure 5: Provincial HPI – 1Q19

Source: FNB

Figure 6: Time on market – 1Q19



Source: 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	3.6	3.9	4.1	4.1	4.0	4.1	4.3	4.4	4.3
2019	3.8	3.4	3.5	3.4								

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.