Property Barometer.

4.2%	0.0%	9.4	10%
y/y FNB HPI	m/m FNB HPI	weeks on market	average discount

Home-buying market showing resilience, for now

Key themes

- Recent data shows better-than-expected house price growth; further demonstrating the decoupling of economic fundamentals and housing market outcomes.
- Interest rate-induced demand remains strong, but momentum is slowing.
- Incidents of downscaling due to financial pressure continue swelling, although lower compared to GFC.
- 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. Data shows, in line with our expectations, that job losses are now migrating to more white-collar workers.

Annual house price growth accelerates in February

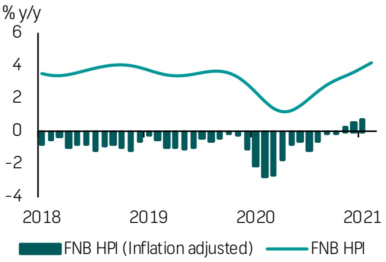
The FNB HPI annual house price appreciation for February rose to 4.2% y/y, up from 3.9% in January. On a month-on-month basis, however, price growth continues to slow, likely reflecting the tapering of interest rate-induced demand. This is consistent with Estate Agents Survey data, which showed still strong but slowing buyer demand, mainly in the middle-priced segments of the market. Forward-looking indicators suggested slowing demand in 1Q21, with only 37% of surveyed agents expecting volumes to increase from 4Q20 levels. We continue to see bigger, mainly freestanding, properties gaining in popularity, with buyers responding to the demands of remote working.

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.

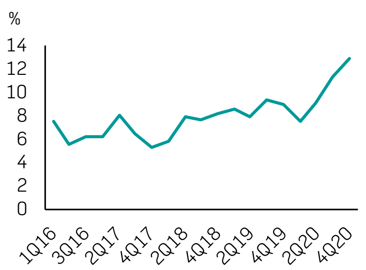
Much of the reflation in 2H20 was driven by middle segments, buoyed by low interest rates as well as demand for bigger spaces to facilitate remote work. Part of this was also driven by tenants switching from renting to owning. It is unlikely that there is much of this demand left in the tank – Stats 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. A combination of these factors is expected have a dampening effect on activity and, eventually, price growth in the coming months.

Figure 1: FNB HPI



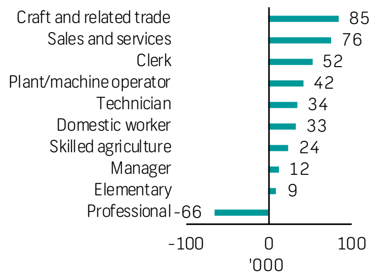
Source: FNB Economics , Stats SA

Figure 2: TPN Vacancy rates



Source: TPN, FNB Economics

Figure 3: Job losses/gains by occupation - 4Q20



Source: Stats SA, FNB Economics

Economist

Siphamandla Mkhwanazi

Quants
Mandisa Zokufa
Kamenee Govender

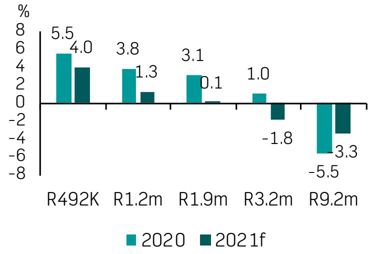
Contact us:

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

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 -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 information box below).

Figure 4: Price growth - Forecast by price bucket



Source: FNB Economics

Information Box 1: Residential property – Explaining the resistance

- Nature of the crisis: Incentive is to own property to facilitate remote work. Evidence shows a relatively stronger demand for bigger properties.
- Ultra-low interest rates: The lower rates facilitated a strong demand impulse, by making mortgage payments more affordable (for those whose incomes remained intact during the pandemic). It also prevented major distressed sales during this period.
- Unprecedented support from lending institutions: Willingness of lenders to, among other interventions, restructure loans and offer payment holidays prevented a major supply glut at the height of the pandemic.
- Disproportionate labour market impact: First wave of job losses affected mainly blue-collar workers, who typically would not afford a mortgage; while white-collar workers remained broadly unaffected. As a result, the initial impact of the pandemic benefited the home-buying market, at the expense of the rental market. This was seen in the form of skyrocketing vacancy rates, while demand for mortgages climbed, as tenants who could afford to switched from renting to owning. However, labour market pressure is now migrating to white-collar workers: Stats SA data shows that 66 000 professionals lost their jobs in 4Q20, while other occupations recorded net job gains in the same period.

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										

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.