On a national average basis, the 1st quarter 2018 FNB Estate Agent Survey showed a noticeable shortening in the average time of homes on the market prior to sales, pointing to a housing market possibly starting to strengthen in terms of housing demand relative to supply.

However, a look at the major regional breakdown points to very different regional housing markets. Gauteng appears the most price-realistic and relatively well balanced, averaging 11 weeks and 5 days’ time on the market, while the Coastal Metro markets average a far weaker 17 weeks and 6 days.

**KEY POINTS**

- The 1st quarter 2018 FNB Estate Agent Survey saw the average time of homes on the market shorten noticeably, from 17 weeks and 2 days in the prior quarter to 14 weeks and 1 day, reflecting improved housing demand relative to supply in the 1st quarter.
- From a previous quarter’s 95%, the percentage of sellers being required to drop their asking price to make the sale also improved (declined) slightly to 91% in the 1st quarter of 2018.
- The estimated magnitude of drop in asking price also pointed towards a stronger market in the 1st quarter of 2018, diminishing from -10% in the prior quarter to -8.2%.
- The once booming Namibian market remains the weaker market in the broader Rand Area. Whereas South Africa’s estimated average time on the market was 14 weeks and 1 day, Namibia’s had risen to as high as 24 weeks and 4 days in the 1st quarter of 2018.
- In the 1st quarter of 2018 we saw a mere 3.4% of agents citing “stock constraints” as an issue in their areas. While this is slightly up from the prior quarter’s 2%, it remains very low compared to the 24% high of early 2015.
- Within South Africa, there is a major difference in market balance between Gauteng’s Metros and the 3 Major Coastal Metros. Whereas Gauteng’s average time on the market in the 1st quarter of 2018 was a lowly 11 weeks and 5 days, Tshwane Metro being the strongest market within this region, the aggregated time on market of the 3 Major Coastal Metros, i.e. Ethekwini, Nelson Mandela Bay and Cape Town, was a far longer 17 weeks and 6 days.
- The Gauteng region has thus become the relatively well-balanced region of the country, which is in line with the survey also having shown that region to have had the most significant rise in Residential Market activity levels recently.
THE MAJOR SURVEY INDICATORS OF HOUSE PRICE REALISM ALL POINT TOWARDS IMPROVEMENT, BUT THERE ARE MAJOR REGIONAL DIFFERENCES

INTRODUCTION

Due to significant resistance by home sellers to downward pressure on house prices in times of housing demand slowdown, house prices do not fully adjust in the short term. Instead, the residential market often moves away from market equilibrium price for lengthy periods of time. Such a move away from equilibrium is reflected in a rise in the average time that homes remain on the market prior to sale.

We have therefore developed indicators which assist us in trying to ascertain whether we have a market moving away or closer to equilibrium, or otherwise put, whether housing demand relative to supply is strengthening or weakening.

INDICATORS OF MARKET BALANCE AND PRICE REALISM

Average time of homes on the market declined noticeably in the 1st quarter of 2018

In the 1st quarter of 2018, we saw early signs of housing market strengthening on a national average basis. Such signs did not yet include any strengthening in average real house price growth, but were seen in a noticeable rise in the FNB Estate Agent Survey’s Residential Activity Rating. This probably points to some strengthening in housing demand, although “activity” in an agent’s world is about the supply side as well as the demand side of housing.

This begs the question as to whether rising demand is beginning to have an impact on the housing market’s balance between demand and supply? The early indication is, yes, it is, although data can be volatile, so one quarter’s improvement is not a strong confirmation of strengthening yet.

But in the 1st quarter 2018 Estate Agent Survey, the housing market indeed appears to have moved closer to equilibrium, our key indicator of market balance being the agent estimate of average time of homes on the market prior to being sold.

We take the, admittedly subjective, view that around 12 weeks (near to 3 months) average time on the market more-or-less represents a market equilibrium situation on a national average basis.

Up until the final quarter of 2017, the market had drifted away from that equilibrium level, reaching an average time on the market of 17 weeks and 2 days at that stage.

The 1st quarter 2018 then saw a noticeable decline, though, from the previous 17 weeks and 2 days to 14 weeks and 1 day.

A smaller percentage of sellers is required to drop their asking price to make the sale too

A 2nd question related to price realism and market balance is where we ask the agents to estimate the percentage of sellers ultimately being required to drop their asking price to make the sale.

While the majority of sellers normally tend to start high and allow themselves to be bargained down as a strategy, there is nevertheless a cyclical element to this behavior.

The 1st quarter 2018 survey showed a decline in this estimated percentage of sellers having to drop their asking price, from 95% in the previous quarter to 91%.

Once again we caution that from quarter to quarter the data can be volatile. But like the average time on the market estimate for the 1st quarter, a decline in percentage of sellers dropping asking price also points to
a shift towards strengthening of demand relative to supply.

We also see a smaller magnitude of estimated average asking price drop

In the 1\textsuperscript{st} quarter survey, the estimated magnitude of decline, for those being required to drop their asking price, became smaller. From -10\% in the final quarter of 2017, the estimated percentage drop in asking price to make the sale diminished to -8.2\% in the 1\textsuperscript{st} quarter of 2018.

Therefore, in the 1\textsuperscript{st} quarter of 2018, all 3 key survey responses related to “market balance”, or “price realism”, point to a quarterly improvement in the balance between demand and supply of homes.

Stock constraints remain low

We do not, however, yet see agents pointing towards a meaningful shift towards greater levels of housing stock constraints in the market yet.

It is difficult to gauge the strength of supply of residential stock through asking survey respondents for their opinion. But when asking agents about their market expectations in the near term, we allow them to provide a list of factors that influence their expectations, both in a positive and a negative way

The 1\textsuperscript{st} quarter 2018 Estate Agent Survey continues to point to relatively few agents citing stock constraints as an issue. The percentage of agents citing stock constraints as an issue rose slightly from 2\% in the prior quarter to 3.4\% in the 1\textsuperscript{st} quarter. However, the percentage citing “ample stock available” also rose, from 2.7\% of agents in the prior quarter to 6.7\% in the 1\textsuperscript{st} quarter of 2018.

Stock constraints as well as “gluts” thus both remain very low in the 1\textsuperscript{st} quarter, and the fact that both estimates shifted slightly higher makes the survey responses inconclusive in this regard.

In the broader Rand Area’s major regions, Namibia remains significantly further away from market equilibrium than South Africa.

When breaking down the key indicators of price realism into the major survey regions, a key feature is the weakness in Namibia relative to South Africa. The once booming Namibian market is now significantly weaker, and further from market equilibrium, than South Africa.

Whereas South Africa’s estimated average time on the market was 14 weeks and 1 day in the 1\textsuperscript{st} quarter of 2018, Namibia’s average time had risen further to 24 weeks and 4 days.

Gauteng remains the strong point within SA in terms of realism and balance.

Within South Africa, Gauteng appears far closer to market equilibrium than the 3 Major Coastal Metro combined.

Whereas Gauteng’s estimated average time of homes on the market was 11 weeks and 5 days in the 1\textsuperscript{st} quarter of 2018, the aggregated Coastal Metro estimated was a far longer 17 weeks and 6 days.
To boost survey sample size when breaking down the survey into more detailed Major Metro regions (to reduce volatility), we resort to a 2-quarter moving average.

Using this 2-quarter average at Metro level, the 3 coastal cities (Cape Town, Ethekwini and Nelson Mandela Bay) have been weaker than the major Gauteng regions. Cape Town, the best of the Coastal Metro regions averaged 15.21 weeks on the market for the 2 summer 2017/18 quarters, Nelson Mandela Bay 22.07 weeks, and Ethekwini 20.64 weeks.

By comparison, Greater Joburg (City of Joburg and Ekurhuleni Metros) has averaged a heathier 14.93 weeks and Tshwane Metro an even more impressive 10.64 weeks for the same 2 quarters.

Focus: Is Tshwane Metro the “rising star” when it comes to market strength in 2018?

Being wary of volatility from quarter to quarter when viewing a Metro on its own, we use 2-quarter moving averages for the data reviewed below, which compares 3 major Metro regions’ survey responses regarding Residential Activity, as well as average time of homes on the market.

The FNB Estate Agent Activity Ratings are a survey response regarding agents’ perceptions of levels of activity in their markets, expressed on a scale of 1 to 10, with a 10 rating being the strongest.

In the 2-quarters up to and including the 1st quarter of 2018, we saw significant increases in both of Gauteng’s major metropolitan regions, Greater Joburg from 5.49 in the prior quarter to 6, while Tshwane recorded the strongest level of all the major metro regions, rising from a prior quarter’s 5.68, to 6.35 in the 1st quarter of 2018.

City of Cape Town, the strongest coastal metro, by comparison recorded a significantly lower 5.40 average for the 2 summer 2017/18 quarters.

Did a superior activity rating in Tshwane, which should reflect the strongest housing demand of any major metro region, translate into greater market strength (“market strength being the strength of demand relative to supply)?

The answer would appear to be “yes” Tshwane’s estimated 2-quarter average time on of homes on the market declined from 13.43 weeks in the final quarter of 2017 to 10.64 weeks in the 1st quarter of 2018 survey.

This is now well-below Greater Joburg’s 14.93 weeks, and Cape Town’s 15.21 weeks.

Ultimately, we would expect this to translate into Tshwane outperforming other major metros with regard to average house price growth.

This, however, can happen only with a considerable lag, and as yet this metro has not recorded strong price growth.
However, we have begun to see an acceleration in the FNB Tshwane House Price Index’s year-on-year growth rate, from a 0.8% low as at the 1st quarter of 2017 to 2.7% by the 1st quarter of 2018. This is now slightly faster growth than all of the other major metros except for City of Cape Town’s 6% in the 1st quarter of this year.

However, the FNB City of Cape Town House Price Index’s year-on-year growth has been de-celerating steadily off a high base, from an 11.2% multi-year high at the start of 2016 to this most recent 6%.

It is thus conceivable that Tshwane may soon see the fastest house price growth of the country’s major metros, should Cape Town house price growth continue to de-celerate, and if the indicators of market “fundamentals” emanating from the FNB Estate Agent Survey are to be believed.

The lower end is the “relative hot spot” in both South Africa and Namibia

Examining the average time of homes on the market by Income Area segment, both South Africa and Namibia showed very wide differentials between the Lower Income Area end and the High Net Worth end, with the Lower Income end having far shorter average times on the market.

While high end homes do generally take longer to sell, we believe that the wide differential, i.e. 21.71 weeks in the case of the High Net Worth segment and 10.14 weeks in the Lower Income segment in the case of South Africa, in part does reflect a relatively stronger lower end of the market.

We say this because there has been a clear widening of the gap between the high and the low end in recent years.

CONCLUSION

On a national average basis, a noticeable decline in the average time of homes on the market was recorded in the 1st quarter of 2018, after a prior increasing trend.

This ties in with a 1st quarter indications of improved national sentiment amongst businesses, investors and consumers alike, and also with a 1st quarter jump in the FNB Residential Activity Rating (not covered in this report).

The strongest major regional markets appear to be found in Gauteng, most notably the Tshwane Metro region, which has by far the lowest average time of homes on the market of late.

By comparison, the 3 coastal major metros are relatively weak, especially Ethekwini and Nelson Mandela Bay, but the once strong City of Cape Town also appears to have cooled off.

Some of the decline in the average time of homes on the market is likely to be seasonal, given that the 1st quarter is typically a strong seasonal quarter for home buying. However, we can’t ignore the signs of a significant improvement in national sentiment, which appears to have been strongly driven by political leadership change in the country late in 2017 and early this year.

This wave of relative “euphoria” can only be sustained should it be backed up by meaningful policy and delivery change aimed at placing SA on a higher economic growth path.

For the time being, however, the residential market has showed strengthening signs early in 2018, but with the strengthening largely being a Gauteng Province story, and with Tshwane Metro appearing to be the Major Metro with the strongest demand-supply “fundamentals”.

![Major 6 Metro House Price Inflation Rates](image-url)
NOTE: A THEORETICAL REPRESENTATION OF THE MARKET SHIFT AWAY FROM EQUILIBRIUM

A very simple representation of the theory on a demand-supply graph below, of a shift away from market equilibrium, appears as follows. Let’s assume a sudden sharp interest rate hike. As this is not a house price-related residential demand-driver, the Housing Demand Curve would shift to the left from D1 to D2. Given home owner resistance to dropping prices, the average price may not immediately decline, however. Therefore, the market initially shifts from point 1 to point 2 on the graph, the average price initially remaining unchanged but quantity demanded and transacted declining from a 6.5 to 2.5. Initially, however, the supply of homes remains at 6.5, and the market is oversupplied. This move to an oversupplied situation would be witnessed in an increase in the average time of homes on the market. The prices now getting transacted in the market at position 2 are above the market equilibrium prices. Only over a significantly longer period, would the market then gradually make its way to position 3 on the graph, as real prices gradually adjust down, resulting in a partial recovery in demand compared with that at Position 2. The market eventually finds a new demand-supply equilibrium at a lower transaction volume level than prior to the demand shift (Position 1), i.e. 4.5, but higher than straight after the initial demand drop.

**We thus always view the full extent of market weakness through average house prices along with average time of homes on the market.**

Given the market’s ability to move away from equilibrium price for lengthy periods, especially in times of economic weakening, it is important not only to focus house price trends. A sizeable part of the market weakness in such times can be seen in the estimated average time of homes on the market prior to being sold, with this average time often lengthening in periods where demand weakens but prices don’t fall “sufficiently”.

This is all very important for both mortgage lenders and that group of borrowers who become financially stressed. That’s because, in cases of mortgage stress, homes need to be “offloaded” quickly in order to settle debt and avoid big holding costs. Often, in order to quickly trade out of the property, the financially-stressed home owners have to go to a level considerably below market equilibrium price to do this, and this may be a “negative equity” situation where the price fetched is insufficient to settle the debt outstanding.