February 2020

Property Barometer.

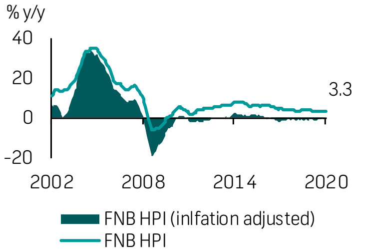
+3.3% y/y FNB HPI	-0.1% m/m FNB HPI	12 weeks, 2 days Time on market

FNB Estate Agents Survey reveals improvement in market activity

HPI slows moderately in January

The FNB HPI kicked off the year on a low gear and registered 3.3% y/y in January, from 3.5% y/y in December. The underlying housing market activity remains broadly stable (see below), despite the apparent weakening of households' balance sheets. Mortgages approved for house purchase continued increasing steadily, outstripping both the average house price appreciation as well as headline inflation. According to the SARB, mortgage advances rose by an annual average of 4.8% y/y in 2019, versus headline inflation and house price growth of 4.1% and 3.6% respectively over the same period. However, the two most recent months' data suggest that this trend (steady growth in mortgage extension) may be starting to lose pace.

Figure 1: FNB HPI

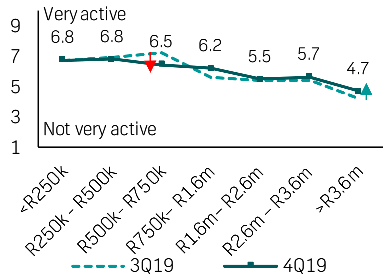


Source: FNB Economics

Market activity improved in 4Q19

The 4Q19 FNB Estate Agents Survey* revealed a mild improvement in the buying and selling activity (Figure 2). Estate agents' market activity rating, on a scale of 1 to 10, increased to 5.9 points, from 5.7 in 3Q19. Improvements primarily came from the middle- to higher-priced segments, while the bottom end remained broadly stable. Most notably, the R750k-R1.6m (middle) segment showed the most improvement, with a rating of 6.2 in 4Q19, from 5.6 in the previous quarter. Nevertheless, the R500k-R700k price band was rated the most active, at 6.8 points.

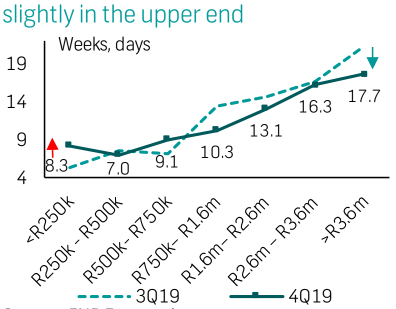
Figure 2: Market activity improved marginally in the upper end



Source: FNB Economics

The improved market activity was also reflected in the reduction of the time a property is on the market for sale (Figure 3). While it remains relatively long (by historical standards), the survey reveals that time to sale shortened to 12 weeks and 2 days in 4Q19, from 13 weeks and 5 days in the previous quarter. Much of the improvement came from the higher-priced segments. This could be attributable to the discounted property prices (due to excess supply) and the availability of credit in the upper end. Nevertheless, time on market remains relatively lengthy in these segments, with properties valued at R3.6m or above taking about 18 weeks to sell. This suggests that while there is an improvement, demand is still relatively slack.

Figure 3: Time on market improved slightly in the upper end



Source: FNB Economics

Volume of buyer enquiries (number of genuine viewers per showroom) seems to be stabilising at around 9 per showroom. Interestingly, lower-priced segments saw a moderation in buyer enthusiasm, while upper segments saw an improvement, albeit from a low base. This is likely as a result of current pricing dynamics. House prices are growing at above inflation in the lower end, while they languish behind inflation in the upper end. As such, the divergent trends in buyer enquiries (in the lower end vs

** Please note that we have expanded our sample to include the "Affordable market".*

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upper end) could be reflecting a deterioration in buyer affordability in the lower end, and a contrasting improvement in the higher end. This is also supported by the fact that there was an even deeper discounting in higher-priced segments, with the average discount rate reaching 13% in 4Q19 from 11% in 3Q19 (Figure 4). This may have improved affordability and injected some enthusiasm in the upper end. The high-net-worth segment (properties valued R3.6m or more) yielded the biggest discount, averaging 17% in 4Q19. Notably, discounting increased from 12% to 16% in the R2.6m-R3.6m segment. As we will see below, this could be linked to a spike in emigration-related sales in this segment.

Furthermore, the favourable pricing (deepening discounting in the higher end), combined with easier lending standards, could have stimulated first-time buyer participation (Figure 5). The survey reveals that there has been a steady increase in the proportion of first-time buyers over the last three quarters, with these buyers estimated to have accounted for 30.9% of the market in 4Q19, up from 29.6% in the previous quarter. Again, much of the improvement came from higher-priced segments. Nevertheless, first-time buyers remain dominant in the affordable market, accounting for approximately 65%, while repeat buyers account for around 80% of the middle to upper segments.

Reasons for selling

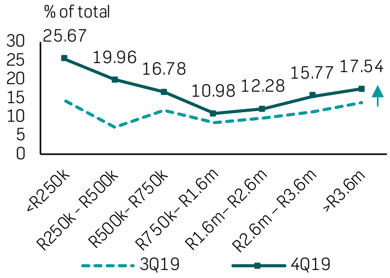
The FNB Estate Agents Survey shows that there were insignificant changes in the reasons for selling matrices (Table 1). Of concern, however, is the rising incidents of downscaling due to financial pressure (Figure 6). These accounted for 16.2% of sales volumes, up from 13.6% in the previous quarter. Financial pressure intensified across all lower income (price) segments and was more prevalent in the R500k-R750k price band (25.4%). The R2.6m-R2.6m price band recorded the least of such incidents, and there was a significant improvement from the previous quarter (declined from 16% to 10%).

Although there was no overall worsening in the trend, emigration-related sales remain concerningly elevated (Figure 7). The 4Q19 data shows these to have accounted for 14.6%, same as in the previous quarter. However, segmented data shows that there was a material upswing in the R2.6m-R3.6m segment, where such sales accounted for as much as 22.6% in 4Q19, up from 17.5% in the previous quarter. This is interesting, given the fact that (as we saw above) this segment registered the most improvement in the number of sales as a result of financial pressure. This could be read as saying that there is financial pressure building in the upper segment, and these owners, instead of scaling down, are now opting to leave the country (financial pressure-induced sales declined by 6ppt, while emigration-related sales increased by 5ppt). This is also supported by the deepening discounting in this segment – on average, buyers were able to score a 16% discount on initial asking prices in 4Q19, 3ppt more than in the previous quarter.

Conclusion

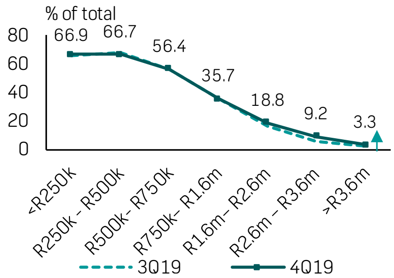
From a house price perspective, we expect the prevailing discounting in the upper end and the robust house price growth in the lower end to persist into the year. This is primarily driven by the divergent demand-supply dynamics in these markets. Notwithstanding the lower borrowing costs, the financial state of households remains a key downside risk, particularly in the lower end where affordability matrices are fragile and relatively more sensitive to income shocks. For now, low borrowing costs appear to be (cyclically) offsetting the drag from the weak labour markets and uninspiring economic outlook. Nevertheless, economic developments will remain the key (structural) driver of housing market trends over the long term. As such, we expect house price growth to remain low this year and average 3.7% y/y, modestly up from 3.6% in 2019. Estate agents also appear to be tapering their outlook on house prices. In 4Q18, estate agents' 12-month forward-looking expectations were for house prices to rise by 4.9% (annual average for 2019). The FNB House Price Index shows house prices to have risen by only 3.6% in 2019. The 4Q19 estate agents' expectation is for property prices to increase by an average 3.3% over the next 12 months (annual average for 2020), slightly below our forecast of 3.7%.

Figure 4: Average discount – Deeper discounting across board



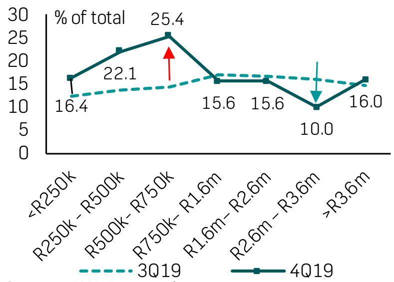
Source: FNB Economics

Figure 5: First-time buyer participation improved moderately in the upper end



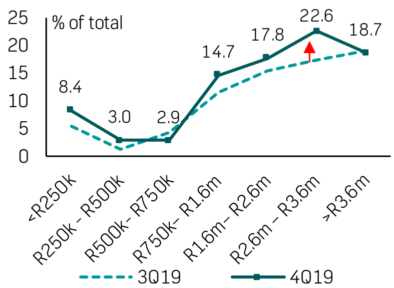
Source: FNB Economics

Figure 6: Financial pressure mounting, mainly in the upper end



Source: FNB Economics

Figure 7: Emigration-related sales still elevated



Source: FNB Economics

Table 1: Reasons for selling

	SA	<R250k	R250k - R500k	R500k- R750k	R750k- R1.6m	R1.6m- R2.6m	R2.6m - R3.6m	>R3.6m
Downscaling due to financial pressure	16.21	16.35	22.06	25.42	15.63	15.57	10	16
Downscaling with lifestage	20.4	8.85	14.86	25.42	21.57	21.61	25.76	21.17
Emigrating	14.59	8.4	2.97	2.92	14.73	17.8	22.64	18.7
Relocating	8.3	10.15	5.92	11.25	8.02	9.91	6.6	6.83
Ugrading	10.41	11.4	15.97	7.5	12.33	9.16	7.12	8.9
Moving for safety reasons	9.39	8.15	9.58	2.5	10.2	10.27	9.52	10.07
Change in family structure	11.54	12.35	13.19	8.33	11.02	9.18	13.84	13.73
Moving to be closer to work	9.17	24.35	15.44	16.67	6.51	6.5	4.52	4.6

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	4.9	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	4.2	4.2	4.2
2019	3.9	3.3	3.4	3.4	3.3	3.5	3.6	3.7	3.8	3.7	3.5	3.5
2020	3.3											

Forecast

FNB SA Economic Forecast

Economic Indicator	2016	2017	2018	2019f	2020f	2021f
Household consumption expenditure %y/y	0.6	2.1	1.8	1.1	1.0	1.3
Government consumption expenditure %y/y	2.2	0.2	1.9	1.4	0.7	0.9
Gross fixed capital formation %y/y	-3.5	1.0	-1.4	-0.9	-0.1	0.8
Real GDP %y/y	0.4	1.4	0.7	0.3	0.6	0.8
Total exports %y/y	0.4	-0.7	2.6	-1.2	-0.4	0.9
Total imports %y/y	-3.9	1.0	3.3	1.8	2.1	1.4
Current account (% of GDP)	-2.8	-2.5	-3.5	-3.3	-3.6	-3.7
CPI (average) %y/y	6.3	5.3	4.6	4.1	4.2	4.2
CPI (year end) %y/y	6.7	4.7	4.5	4.1	4.0	4.2
Repo rate (year end) %p.a.	7.00	6.75	6.75	6.50	6.00	5.75
Prime (year end) %p.a.	10.50	10.25	10.25	10.00	9.50	9.25
USD/ZAR (average)	14.70	13.30	13.25	14.50	14.90	15.50

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.