



# Property barometer

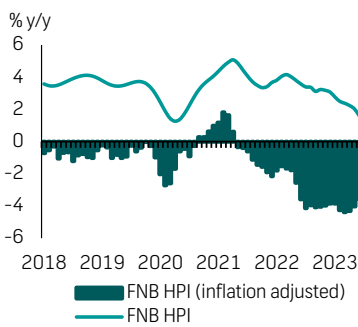
15 August 2023

1.1% ↓  
y/y FNB HPI

50.79 ↑  
Market strength index

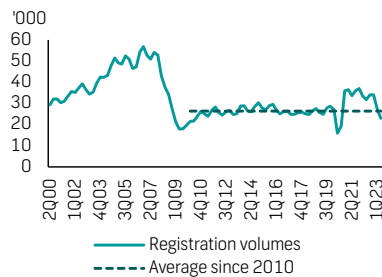
12 weeks and one day ↑  
Time on market

Figure 1: FNB HPI



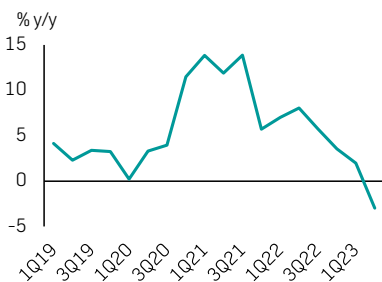
Source: FNB Economics

Figure 2: Mortgage registrations volumes



Source: Deeds, FNB Economics

Figure 3: Average loan amount



Source: Deeds, FNB Economics

## Key themes:

- Global inflation continues to decelerate, enabling central banks to signal the end of their hiking cycles.
- On a domestic front, our assessment indicates that interest rates have reached their peak, and we anticipate the emergence of a measured cutting cycle in the latter half of 2024. Nevertheless, the short-term prospects for this forecast carry an upside risk bias, wherein the possibility of another rate hike looms if the Federal Reserve hikes further, or if inflation surprises to the upside. In the medium term, we perceive the risk to lean toward the downside, where unexpected declines in the Fed funds rate or domestic inflation could prompt the SARB to implement rate cuts sooner than we currently project.
- The global housing market continues its trend of moderation following a robust resurgence in 2021 and 2022, owing to the mounting cost of debt and inflation, which are constraining demand. While real house prices are declining across most nations, the underlying factors vary between advanced and emerging economies. In advanced economies, prices are receding from elevated levels, bolstered by comparatively resilient labour markets and shortages in housing supply. In contrast, emerging markets contend with elevated real interest rates, subdued income growth, and elevated or escalating unemployment rates, particularly among younger demographics, resulting in subdued demand from first-time buyers.

## House price growth slows in July

The FNB House Price Index growth slowed to 1.1% y/y in July, down from 1.6% in June (revised from 1.7%) (Figure 1). This is in line with the continued decline in buying activity, with mortgage volumes now tracking closer to pre-pandemic levels (Figure 2). The average bond amount, estimated from deeds data, declined by approximately 3% in 2Q23, the first decline in 14 years (since 2Q09) (Figure 3). Similarly, year-to-date tax data reveals that property transfer duties are down by 10.3% compared to the same period last year. In addition to lower demand, these indicators signify a downscaling trend by buyers, along with tightening of lending standards amid higher borrowing costs and affordability constraints. Notably, our internally developed market strength index, derived from our property valuers'

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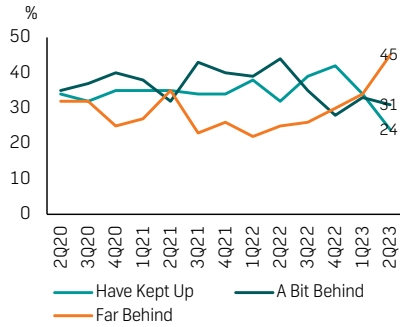
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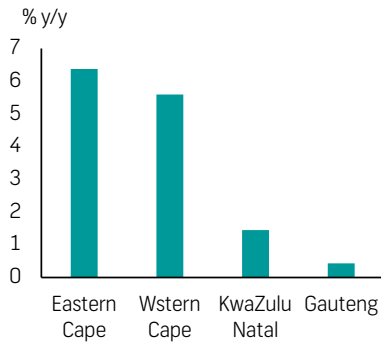


Figure 4: Agents perceptions about income levels relative to prices



Source: FNB Economics

Figure 5: House price growth in top 4 provinces (YTD)



Source: FNB Economics

database, implies a measure of resilience in the lower price segments, presumably sustained by higher income households exploring more budget-friendly alternatives. As previously indicated, the available data suggests comparatively stronger price growth in lower-priced segments, with price declines observed at the upper echelons of the market.

Feedback from estate agents indicates a widening gap between income levels and current house prices. Approximately 45% of surveyed estate agents assert that income levels have considerably lagged behind house prices, while 24% believe income has managed to keep pace (Figure 4). Consequently, a larger proportion of sellers have needed to recalibrate their expectations and reduce their asking prices. Although the average discount quantum on asking prices remains consistent, hovering around 10%, our survey suggests that 81% of sellers in 2Q23 were compelled to lower their asking prices, reflecting an increase from 75% in the previous quarter. Collectively, these indications suggest a subdued environment for house price growth. However, variations are evident across regions, with data showing relatively stronger performance in the Eastern and Western Cape regions (Figure 5).



## 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	3.0
2020	2.4	1.9	1.4	1.3	1.4	1.7	2.3	2.8	3.2	3.6	3.8	4.1
2021	4.4	4.7	4.9	5.1	4.9	4.5	4.1	3.7	3.5	3.3	3.4	3.7
2022	3.8	4.0	4.2	4.0	3.8	3.6	3.4	3.4	3.1	3.2	3.2	3.1
2023	2.8	2.5	2.3	2.2	2.0	1.6	1.1					

### 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.

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 from the 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 previous transaction on the same home.
- The index is very lightly smoothed using Central Moving Average smoothing technique.

#### 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.

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