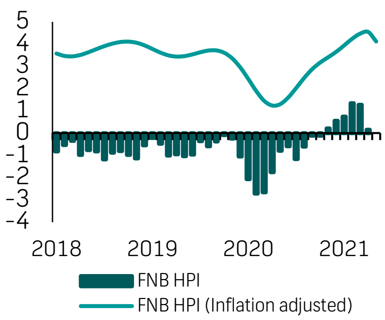
June 2021

Property Barometer.

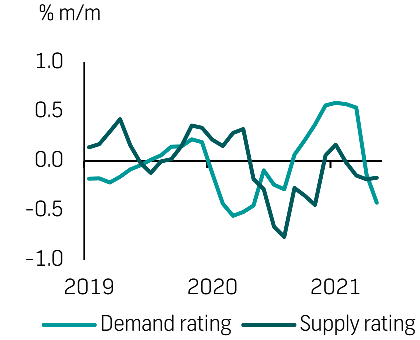
4.1%	0.1%	49.59	8.2
y/y FNB HPI	m/m FNB HPI	market strength index	weeks on market

Figure 1: FNB HPI



Source: FNB Economics

Figure 2: FNB Market strength indices – Growth in demand may have peaked



Source: FNB Economics

Key themes

- Our proprietary market strength indicators show that demand is now moderating, following a strong rebound in 2H20 and into 2021. However, these remain above pre-pandemic levels, in part reflecting the positive effect of lower interest rates on market activity.
- Liquidity remains intact: mortgage extension continues to grow at a faster pace, and loan-to-price (LTP) ratios remain high. Our investigations show that much of this credit is funding purchases in the middle- to upper-priced segments.
- Nevertheless, longer-term demand fundamentals remain uninspiring: latest labour market data shows that there are still 1.4 million fewer people employed compared to the same period last year, and that employment gains made in 2H20 were somewhat reversed in 1Q21, which could weigh on wage income growth. However, we note a potential upside on non-wage income, especially dividend income, which could ameliorate income growth for upper-income households.

Price growth slowed for the first time in almost a year

Following 11 months of successive gains, the FNB HPI annual house price appreciation slowed in May to 4.1% y/y, from 4.6% in April. The slowing pace of price growth coincides with the slowing of our propriety demand indicators, namely the demand strength indicator derived from our property valuers' database as well as internal volumes of mortgage applications. Both indicators declined in the past two months, perhaps suggesting that the interest rate-induced demand may have peaked, following a strong rebound in 2H20 and into 2021. However, these remain above pre-pandemic levels, still reflecting the positive effect of lower interest rates on market activity.

Meanwhile, lenders appear willing to fund residential property acquisitions, or more generally, asset acquisitions (asset-backed credit components are trending higher, while unsecured credit components are trending lower). Data from the SARB shows that mortgage credit has been rising steadily since 2H20, reaching 5.6% y/y in April, from 4.4% y/y in March. Preliminary data also shows that loan-to-price ratios (proxy for loan-to-value) have continued to rise, suggesting willingness by lenders to finance a bigger proportion of the purchase price. Note, however, that the surge in LTPs predates the pandemic (it began in 2017) and is largely attributed to intense competition among lenders in a thin volume market.

Segmenting by purchase price[1] shows that experiences have been uneven across the spectrum, with buyers in the upper segments benefiting the most. For the bottom 20% (average purchase price of R420k), LTPs initially declined, presumably because the initial impact of the pandemic affected mostly blue-collar workers, and gradually recovered in 2H20 as economic activity ramped up. By 1Q21 LTPs had broadly moved sideways for all segments, except the two uppermost segments that make up the top 40% by purchase price.

[1] We rank transactions by purchase price, and group these into quintiles. Quintile 1 corresponds to the top 20% (average purchase price of R2.6m) and Quintile 5 represents the bottom 20% (average price of R420k).

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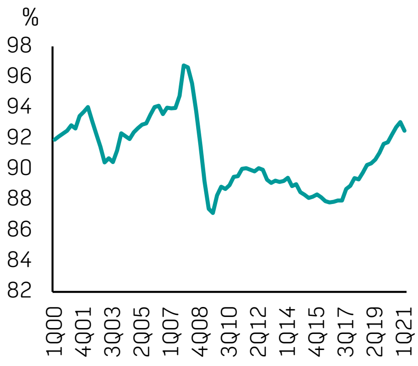
Overall, these numbers suggest that liquidity remained intact throughout the pandemic, and upper-income segments benefited the most. For 1Q21 average LTP appears to have retreated slightly, but it remains broadly in line with the 2020 average. At this stage it is too early to conclude that lenders are beginning to slow down; we will need more data points to make this determination.

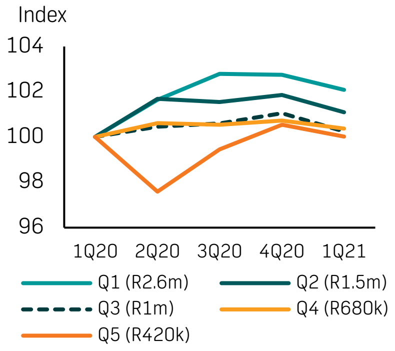
While the above factors are broadly supportive of market activity, they are more cyclical in nature. Structural factors, such as employment growth, remain elusive. The latest labour market data shows that there are still 1.4 million fewer people employed compared to the same period last year, and that employment gains made in 2H20 were somewhat reversed in 1Q21. Company liquidations remain elevated and wage growth is low. So far, however, these have been offset by low interest rates as well as the pandemic-induced changes in housing preferences, i.e. home ownership over renting. Positively, we note a potential upside on non-wage income, especially dividend income, which could provide impetus for upper-income households. We are also somewhat encouraged by employers' perceptions about employment outlook, which have become materially less bearish. However, this has not filtered through to official employment numbers yet.

Figure 3: Loan-to-price ratio



Source: FNB Economic, Deeds office

Figure 4: Loan-to-price ratio by price segments



Source: FNB Economics, Deeds office

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	4.5	4.6	4.1							

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 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 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.