



Property barometer

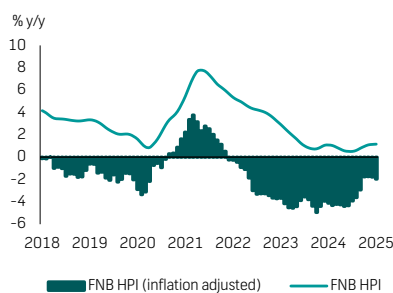
27 February 2025

1.2% ↑
y/y FNB HPI

51.42 ↑
Market strength index

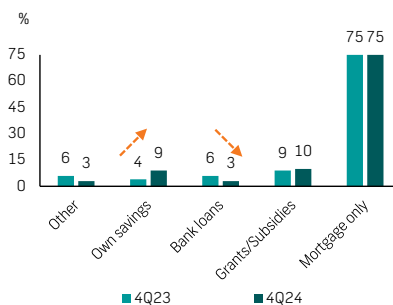
11 weeks and zero days ↓
Time on market

Figure 1: FNB HPI



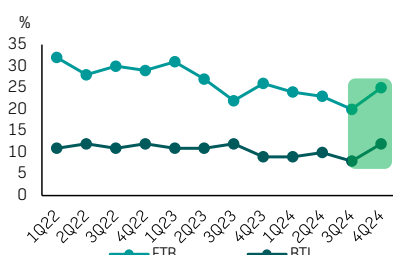
Source: FNB Economics

Figure 2: First-time buyers: Sources of upfront deposit



Source: FNB Economics

Figure 3: First-time buyer and Buy-to-Let activity



Source: FNB Economics

Signs of recovery amid changing buyer and investor trends

The latest FNB House Price Index (HPI) accelerated to 1.2% y/y in January, from 1.1% in December (revised from 0.9%) (Figure 1). While still subdued, this marks the highest growth rate since June 2023, reflecting a gradual market recovery. The upward trend suggests improving buyer sentiment, supported by easing financial pressures and evolving lending conditions.

Shifting consumer behaviour and mortgage lending trends

Mortgage lending conditions have shown a modest improvement, with the average loan-to-value (LTV) ratio, derived from Deeds data, rising to 95.1% in 4Q24 (from 95.0% in 3Q24 and 94.7% in 2Q24). This signals cautious optimism among lenders and buyers, as banks gradually loosen lending standards in response to an improving economic backdrop.

The 4Q24 FNB Estate Agents Survey highlighted notable shifts in first-time buyer behaviour:

- Reduced reliance on unsecured credit for deposits, with more buyers using personal savings (Figure 2). This trend is partly driven by improving household finances and the early impact of the “two-pot” retirement system, which allows limited pre-retirement withdrawals from pension savings. This has enabled some buyers to fund deposits without resorting to high-risk debt.
- First-time buyer participation rose from 20% to 25% of total market activity, with an even higher 39% share in the Affordable segment (Figure 3). However, participation remains below 2022 levels (approx. 30% of market activity), when the last interest rate hiking cycle began, suggesting that affordability constraints are still limiting a full recovery in this segment.

Growing interest in Buy-to-Let investments

Investor activity is also picking up, with the incidence of buy-to-let purchases increasing from 8% to 12% of market activity, according to the 4Q24 FNB Estate Agents Survey (Figure 3). The Affordable segment is driving much of this activity, where 30% of purchases are now for investment purposes. This trend reflects households with stronger balance sheets seeking alternative investment

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Outlook

¹ The BankservAfrica Take-home Pay Index (BTPI), which tracks the average take-home pay of approximately 4 million salary earners in South Africa, grew by 9.7% average in real terms in the three months to January 2025.

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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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