

Box 4 Unpacking the drivers of residential property prices

In the absence of an official residential property price index, growth in nominal residential property prices in South Africa is derived from an average¹ nominal house price index that is based on the indices of private data providers.²

Double-digit rates of increase in average nominal house prices prior to the global financial crisis in 2007–08 steadily decelerated to such an extent that prices, when measured over a year, actually decreased in the second half of 2008 and the first half of 2009. Subsequently, average house price inflation accelerated gradually to 7.4% in the year to October 2015 before moderating significantly to 3.6% in the year to January 2020. Adjusted for consumer price inflation, average house prices have almost consistently decreased on a year-on-year basis since August 2016.

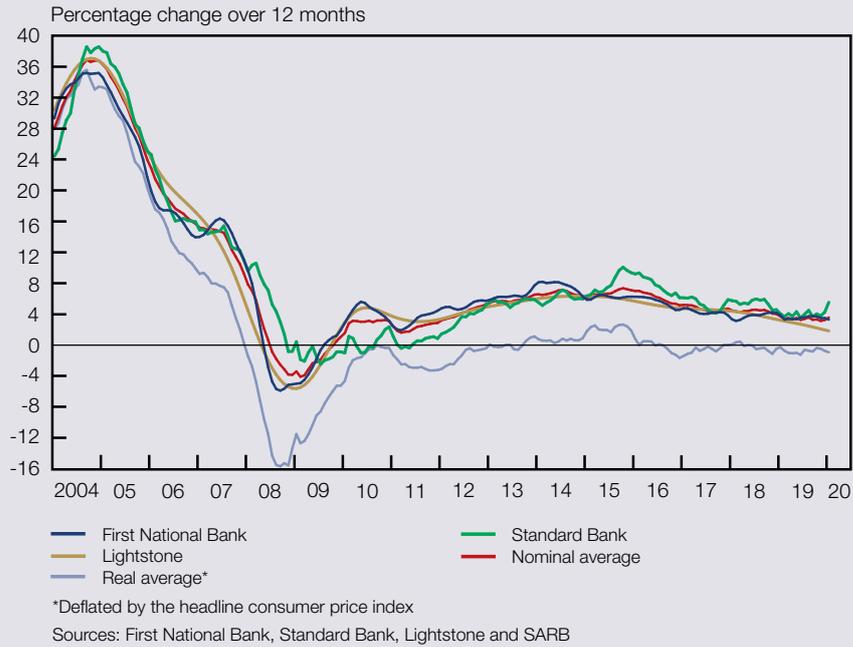
1 The average nominal house price index used in this analysis is derived as an arithmetic average of the house price indices of First National Bank (FNB), Standard Bank and Lightstone, with 2010 = 100.

2 This analysis is based on data sourced from FNB, Standard Bank and Lightstone. The FNB House Price Index is based on repeat sales, which measure the rate of change in the prices of individual houses when transacted between two points in time, and the Case–Shiller methodology. See <https://dl.airtable.com/attachments/eca9e9de07c34049df39fa9a84a7bb07/95de64ec/Property-barometer-Q4.pdf>
The Standard Bank House Price Index tracks movements of assessed values per square metre of properties financed and is combined with a trimmed mean methodology to remove outliers in order to isolate the underlying movement in house prices. See https://ws15.standardbank.co.za/ResearchPortal/Report?YY2162_FISRqWkWXsgxcqoVXWBmtG6ifF0mKfnhdwqpCH+nsE7odFHmvRGjE9aA49CJjdGc/xoilTm+eZwiBgfM+HUIBA==&a=-1
The Lightstone House Price Index is based on repeat sales. See <https://lightstoneproperty.co.za/adminNews/news.aspx?cld=3>



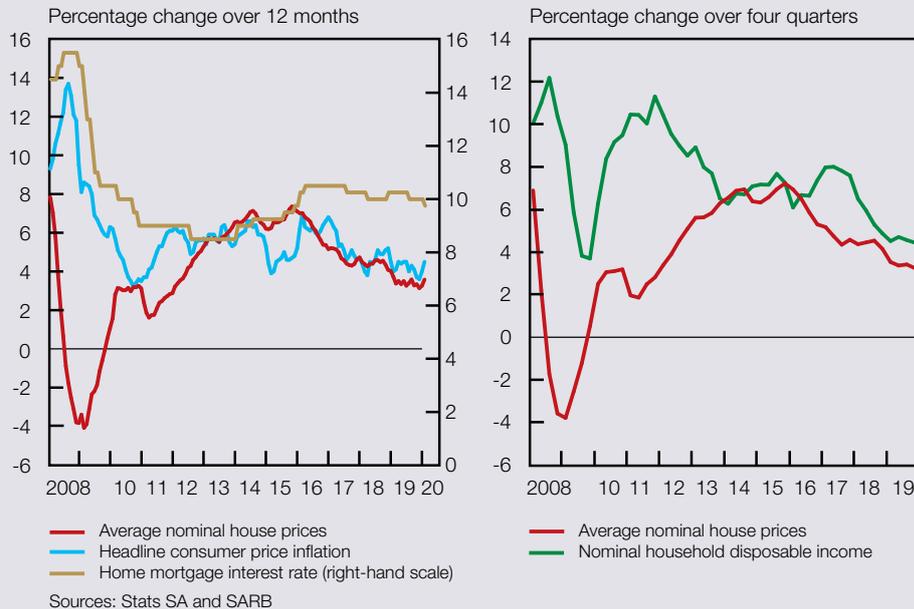


Nominal house prices



The rate of change in house prices is determined by various economic factors. Growth in house prices and higher mortgage interest costs, combined with subdued growth in household disposable income, affect the affordability of residential property, while increases in consumer goods and services prices reduce households' ability to service capital and interest payments on mortgage loans. Weak demand, as indicated by the extended time that residential properties remained on the market, has reflected subdued economic growth, high unemployment and weak consumer confidence in recent years. In addition, mortgage lending was also curtailed by the introduction of stricter lending criteria.

Inflation, interest rates, disposable income and house prices

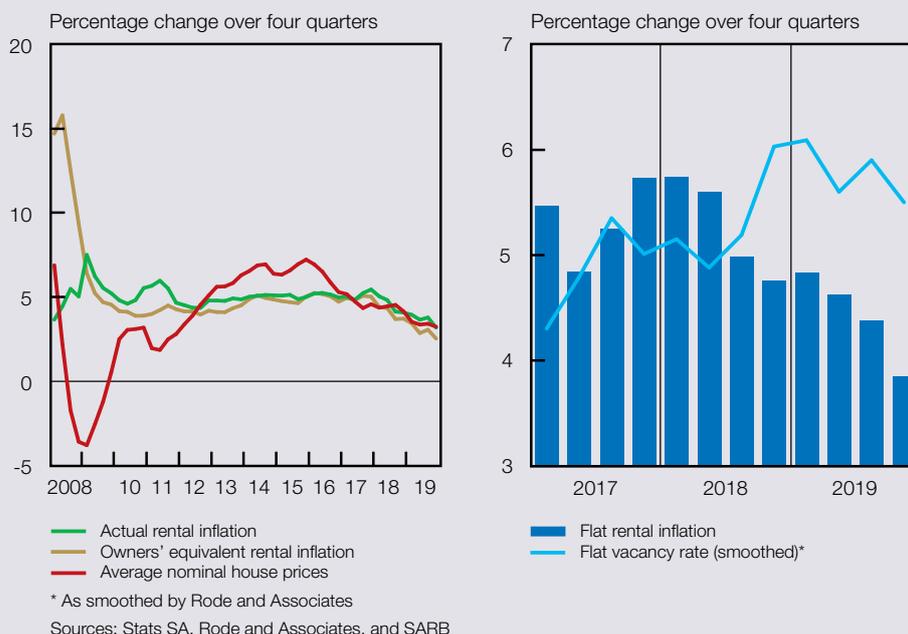


Rental practices and the dynamics between buying and renting a property also affect residential property prices. Rental inflation comprises both actual and owners' equivalent rent,³ as measured by Statistics South

³ Houses are either occupied by the owner or rented to a tenant. Actual rentals are the amounts paid by tenants to the owner for the provision of accommodation and has a weight of 3.52% in the CPI basket, whereas imputed owners' equivalent rent measures the value of the services of the use of an owner-occupied dwelling in terms of the corresponding market rental value for the same type of dwelling and has a weight of 13.32% in the CPI basket. See http://www.statssa.gov.za/cpi/documents/The_South_African_CPI_sources_and_methods_May2017.pdf

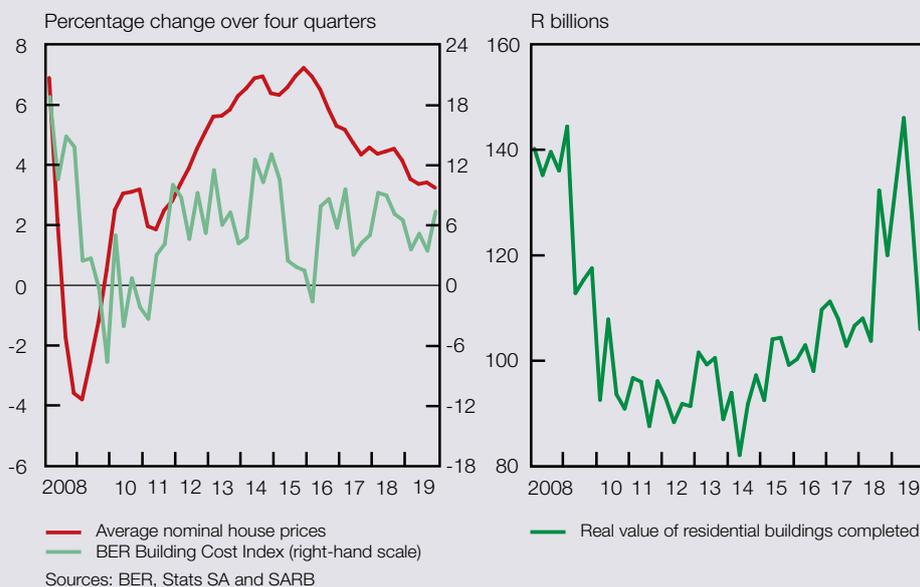
Africa. An increase in the flat vacancy rate⁴ from an average of 4.3% in the first quarter of 2017 to 5.5% in the fourth quarter of 2019, as measured by Rode and Associates, also contributed to muted flat rental inflation, along with subdued flat rental demand and an oversupply of rental stock.

Rental inflation, vacancy rate and house prices



The supply of houses is influenced by building costs,⁵ which are driven by factors such as the cost of labour, building materials and financing. Building costs also influence house prices. The fairly rapid pace of increase in the real value of residential buildings completed since 2014 was reflected in the slowdown in the rate of increase in average nominal house prices.

Building costs, residential buildings completed and house prices



Residential property price developments represent the culmination of various factors, with some gaining more prominence than others at certain stages in the business cycle. However, not all factors can be linked to the stance of the business cycle, as some are more exogenous in nature. As such, the residential property market was also impacted by demographic factors, crime, migration and population growth.

4 Flat vacancy rates represent the percentage of flats that are unoccupied during a specific period.
5 Building costs are proxied by the BER Building Cost Index, which is a measure of the percentage change in average building costs in South Africa. It is based on an analysis of tariffs (rates) in accepted tenders by building contractors. See <https://www.ber.ac.za/Research/Indices/Building-Costs/>

