Property outlook for 2018 remains upbeat - Standard Bank HPI

According to Standard Bank's latest House Price Index (HPI), weaker credit conditions prevented property prices from gaining traction in May, but the overall outlook for the sector in 2018 remains promising. The index retreated to 4.8% year-on-year (y/y) in May, from 5.1% in April.

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While year-to-date average annual growth at 5.1% is still higher than the annual average growth of 4.7% in 2017, a breakdown of property prices across the provinces painted a dim picture, with slower prices in the Western Cape and Eastern Cape weighing. The data showed that Limpopo and Mpumalanga remained in deflation.

By contrast, KZN and Gauteng Province are still trending up, alongside the Northern Cape, Free State and North West. The provincial indices, however, did show that prices started slowing in KZN and Gauteng on a month on month basis, partly contributing to the slowing down of national house prices.

But it is not all negative as green shoots begin to appear in other areas. Siphamandla Mkhwanazi, Standard Bank Property Research economist, points out that the cash market bucked the downward trend in the wake of improved consumer sentiment following a turgid 2017.

Positive sentiment

While the SBR HPI averaged 5.1% in the first quarter of the year, a similarly constructed “cash market” HPI (based on non-mortgaged transactions in SA) showed 9.9% y/y average growth.

“This is indicative of more positive sentiment filtering into the economy, with buyers who do not need a mortgage also not being constrained by credit conditions,” says Mkhwanazi.

Oil and currency movements may have dimmed the chances of a material further retreat in SA inflation expectations and prospects for rate cuts, but Standard Bank expects a gradual easing of credit conditions this year and into 2019.

“We still see 2018 house prices stronger than in 2017 due to the turnaround in business and consumer sentiment, as well as gradually easing credit conditions,” says Mkhwanazi.

Building and purchasing activity, relatively subdued in the last year, will likely benefit from the upswing in business and consumer sentiment.

“However, much will depend on how much sentiment translates into investment and, ultimately, higher employment levels,” concludes Mkhwanazi.