

PROPERTY BAROMETER – FNB Area Value Band House Price Indices

The Luxury Area Value Band has seen the most noticeable price growth slowdown since 2014, but off a high base. However, the Low Income Area Value Band also appears to be experiencing some noticeable pressure more recently.

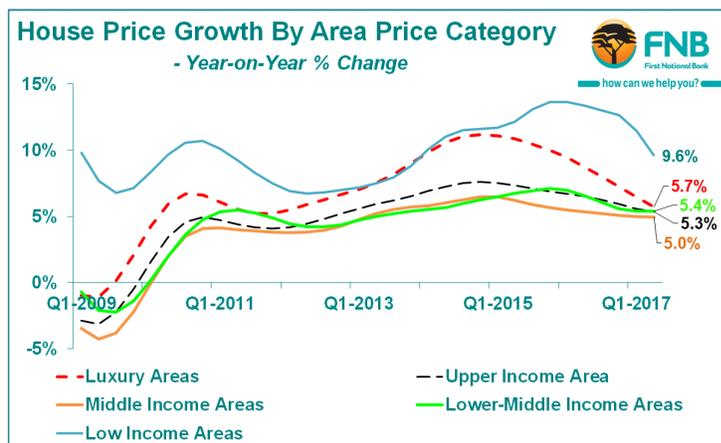
17 July 2017

FNB AREA VALUE BAND HOUSE PRICE INDEX PERFORMANCES

We compile 5 FNB Area Value Band House Price Indices (see note at the end of this report regarding the methodology). These indices group areas according to their average home transaction values, using deeds data, and include all cities and towns in South Africa.

The 5 indices are the Luxury Area House Price Index (Average Price = R2.301 million), the Upper Income Area House Price Index (Average Price = R1.224 million), the Middle Income Area House Price Index (Average Price = R866,026), the Lower Middle Income Area House Price Index (Average Price = R582,164), and the Low Income Area House Price Index (Average Price = R357,938)

The 2nd quarter 2017 results show some convergence in the year-on-year house price growth rates of all 5



indices to growth rates that differ significantly less from each other than was the case in the not too distant past.

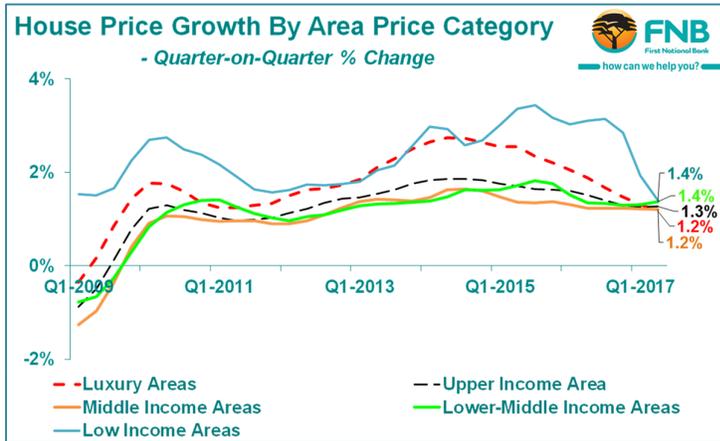
The Low Income Area House Price Index was the strongest performer in terms of year-on-year house price growth, recording 9.6% year-on-year for the quarter.

It is possible that this Low Income Area segment has been a genuine “outperformer” in recent times, given a weak economy causing a financially constrained Household Sector, and a

resultant search for home affordability. However, this segment’s house price inflation performance can be skewed by the original registration of low cost subsidized homes at values not related to true market value, while the selling of council owned rental stock over the years at values not always related to market value may also distort the picture in this segment.

Nevertheless, the Low Income Area Value Band House Price Index has shown marked slowing, from 13.6% at the start of 2016, and is also significantly slower than the 11.5% in the 1st quarter of 2017.

At the opposite end of the area value band scale, the Luxury Area Value Band has also been slowing noticeably off a relatively high base. From a post-2008/9 recession high of 11.2% year-on-year at the end of 2014, this value band’s price growth has slowed to 5.7% by the 2nd quarter of 2017. This is now only marginally higher than the “mediocre” price growth rates of the Lower Middle Income Areas (5.4%), Upper Income Areas (5.3%) and Middle Income Areas (5.0%)



On a quarter-on-quarter basis, a better indicator of recent price growth momentum than the year-on-year calculation, there has been a strong convergence of all 5 area value band indices to very similar rates. The Low Income Area Index recorded 1.4%, the same as that of Lower Middle Income Areas (1.4%), and only marginally higher than the Upper Income Areas (1.3%), Luxury Areas (1.2%) and Middle Income Areas (1.2%)

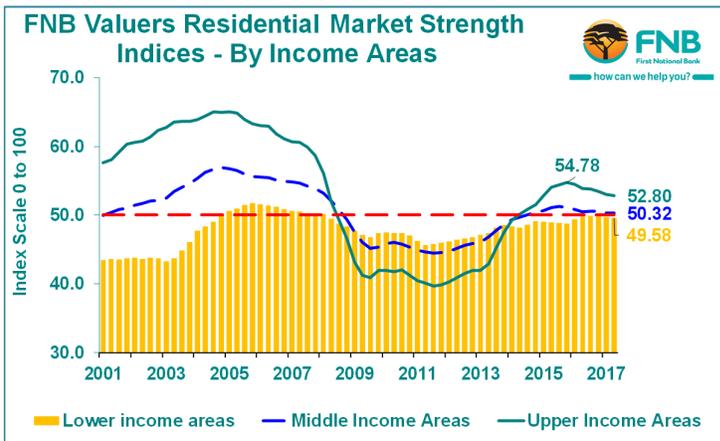
This, in short, suggests that it is becoming increasingly difficult to identify any “outperforming” segments.

However, what we can see is that, since 2014, when interest rates began to rise and the economy had already embarked on a slowing growth path, the most significant multi-year weakening has been found more towards the upper end of the market (although very recently the Low Income Area Value Band has also started to soften noticeably).

At the end of 2014, the Luxury Area Value Band House Price Index recorded year-on-year price growth of 11.2%, compared to 7.6% in the Upper Income Area Value Band, 6.5% in Middle Income Areas, and 6.2% in Lower Middle Income Areas. Only Low Income Areas slightly outpaced Luxury Areas at that time, recording 11.6% year-on-year price growth in the final quarter of 2014.

In the 2nd quarter of 2017, the Luxury Area price growth rate of 5.7% was very similar to all except the still stronger 9.6% of the Low Income Areas.

FNB’S VALUERS HAVE ALSO PERCEIVED A MORE NOTICEABLE HIGH END WEAKENING OFF A HIGHER BASE



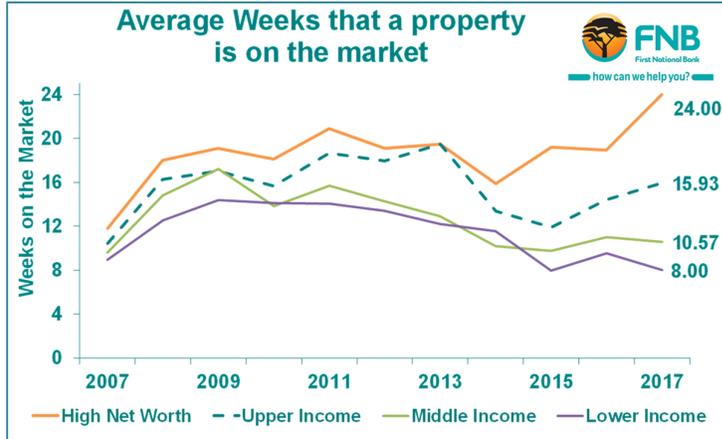
The more significant softening off a higher growth base by the higher end appears to tie in with what FNB’s Valuers perceive about the market.

In the FNB Valuers’ Market Strength Indices (MSI) by Income Areas (self-defined by the valuers), the Upper Income Area MSI has weakened the most, from a multi-year high of 54.78 at the end of 2015 to 52.8 in the 2nd quarter of 2017. By comparison, the Middle Income Area MSI has declined slightly from 51.25 in the 3rd quarter of

2015 to 50.32 in the 2nd quarter of 2017, while the Lower Income Area MSI has only shown a more recent and only very slight decline from 49.88 in the 3rd quarter of 2016 to 49.58 by the 2nd quarter of this year.

The High End of the market thus appears to have led the slowdown of recent years

FNB ESTATE AGENT SURVEY ALSO POINTS TO MORE NOTICEABLE SLOWING AT UPPER END SINCE 2014



The more significant upper end slowing has also been apparent in the FNB Estate Agent Survey in recent years.

Upper End homes do generally stay on the market for a longer time on average prior to sales than is the case at the lower priced end.

However, from 2015 onward we began to notice a widening in the gap in average time of homes on the market between the Luxury and Upper Income Area segments on the one hand, and the Middle and Lower Income Area

segments on the other hand.

We must just mention that our agent survey's income areas are self-defined by agents, so average home values per segment differ markedly from our own area value band segmentations.

In 2014, the "Lower Income" Area segment (average value = R1.157 million) showed an average time of homes on the market of 11.54 weeks. This average time has shortened to an 8 week average for the 1st half of 2017. Middle Income Areas (average price = R1.774 million) saw average time on market go slightly higher from 10.18 weeks average in 2014 to 10.57 weeks in the 1st half of 2017.

The increase in average time on the market in the Upper Income Area segment (average price = R2.969 million) was more significant, from 13.36 weeks in 2014 to 15.93 weeks in the 1st half of 2017.

But the most significant increase in average time on the market was to be found in the "High Net Worth" Areas (average value = R7.748 million), rising from 15.86 weeks in 2014 to 24 weeks in the 1st half of 2017.

In short, since 2014, the higher up the income area ladder we go the more significant the rise in average time of homes on the market appears to have been. Although the FNB Estate Agent Survey Income Areas are very different to our own value band house price index segmentations, this picture ties in with the FNB Area Value Band House Price Index picture, where the Luxury Area Value Band has shown the most significant slowing off a higher price growth base.

IN CONCLUSION

The house price growth differential between the 5 FNB Area Value Band House Price Indices has been narrowing of late, with the most significant slowdown since 2014 being found at the Luxury Area end, while more recently the outperforming Low Income end has started to also see noticeable price growth slowing.

In a financially constrained economy, with multi-year weakness in consumer confidence, we would expect a more cautious South African household to search for relative affordability in the housing market. As such, we believe that the Luxury and Upper Income Area Value Bands could become the near term "under-performers" in terms of house price growth.

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Note:

The FNB Area Value Band House Price Indices are derived from Deeds Office Data, utilizing only property transactions by individuals (“natural persons”). There are 5 Area Value Band Indices. The areas are grouped into quintiles according to their average transaction price over the 5 years from 2012 to 2016. A quintile does not represent 20% of all areas, but rather a group of areas whose transaction volume (also over the 5 year period 2012 to 2016) accounts for 20% of total transaction volume. For example, Quintile 1, named the “Luxury Area Value Band”, is the group of areas with the highest transaction price averages in South Africa, making up 20% of the total volume of property transactions by individuals.

The indices are named as follows:

Quintile 1 – Luxury Area Value Band House Price Index

Quintile 2 – Upper Income Area Value Band House Price Index

Quintile 3 – Middle Income Area Value Band House Price Index

Quintile 4 – Lower Middle Income Area Value Band House Price Index

Quintile 5 – Low Income Area Value Band House Price Index

The index methodology used is a “repeat sales” methodology

Given that deeds data is a different dataset to our monthly FNB National House Price Index, and more dated than our own FNB data, the Area Value Band Indices are not exactly comparable with it.

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.

AVERAGE HOUSE PRICE INDEX BY AREA VALUE BAND

	2014	2015	2016	Q3-2016	Q4-2016	Q1-2017	Q2-2017
HOUSE PRICE INDICES BY AREA VALUE BAND							
Luxury Areas (Index Q1 2001 = 100)	534.2	590.9	640.2	646.1	655.6	664.1	671.9
- year-on-year % change	10.7%	10.6%	8.4%	8.0%	7.3%	6.5%	5.7%
- quarter-on-quarter % change				1.7%	1.5%	1.3%	1.2%
Upper Income Areas (Index Q1 2001 = 100)	450.0	482.5	513.2	517.0	523.7	530.3	537.0
- year-on-year % change	7.3%	7.2%	6.4%	6.3%	5.9%	5.6%	5.3%
- quarter-on-quarter % change				1.4%	1.3%	1.3%	1.3%
Middle Income Areas (Index Q1 2001 = 100)	455.1	482.7	508.2	511.3	517.5	523.8	530.1
- year-on-year % change	6.1%	6.1%	5.3%	5.2%	5.1%	5.0%	5.0%
- quarter-on-quarter % change				1.2%	1.2%	1.2%	1.2%
Lower-Middle Income Areas (Index Q1 2001 = 100)	515.9	551.1	585.8	589.7	597.3	605.1	613.5
- year-on-year % change	5.9%	6.8%	6.3%	6.1%	5.6%	5.4%	5.4%
- quarter-on-quarter % change				1.3%	1.3%	1.3%	1.4%
Low Income Areas (Index Q1 2001 = 100)	673.9	759.2	859.0	872.5	897.3	914.5	927.2
- year-on-year % change	11.1%	12.7%	13.2%	13.0%	12.7%	11.5%	9.6%
- quarter-on-quarter % change				3.1%	2.8%	1.9%	1.4%