PROPERTY BAROMETER – AREA VALUE BANDS

The Recent slowing in house price growth is broad-based across most segments, as monetary and fiscal stimulus run out and domestic economic growth stagnates

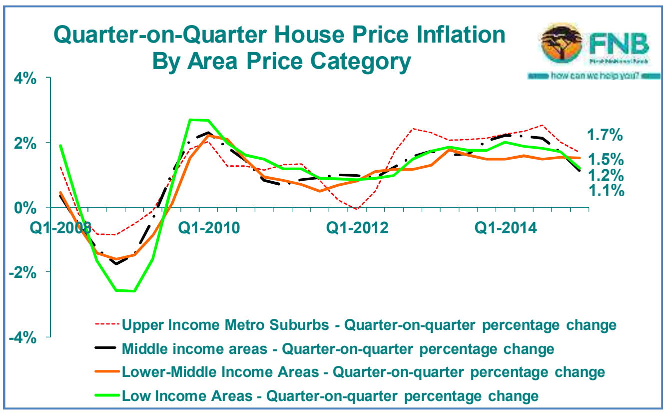
7 May 2015

SLOWING HOUSE PRICE GROWTH IS BROAD-BASED

We have been pointing to a gradual slowing in house price growth in the FNB National House Price Index for some time, which is no surprise given recent years of broad slowing in South African economic growth. And in the 1st quarter 2015 update of our FNB Area Value Band House Price Indices, we see that slowing house price growth is fairly broad-based, with 3 out of 4 segments showing noticeable slowdowns in price growth in recent quarters.

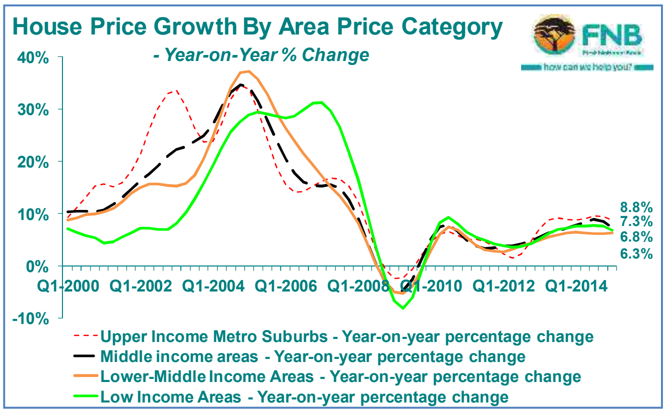
Using Deeds data transactions by individuals, we compile our 4 FNB House Price Indices by Major Metro Area Value Band, namely Upper Income Areas (Average house price = R2.642m), Middle Income Areas (Average Price=R1.396m), Lower Middle Income Areas (Average Price = R868,887) and Low Income Areas (Average Price = R461,407.

On a quarter-on-quarter basis, 3 out of the 4 Area Value Bands showed a noticeable slowing in house price inflation. These were the Upper Income Area Band, whose inflation slowed from 2.5% in the 3rd quarter of 2014 to 1.7% in the 1st quarter of 2015, the Middle Income Area Band from 2.1% to 1.1% over the same period, and the Low Income Area band from 1.8% to 1.2%. The only value Band to hold its own was the Lower Middle Income Area Band, whose quarter-on-quarter inflation rate of 1.5% in the 1st quarter was unchanged from 2 quarters earlier.

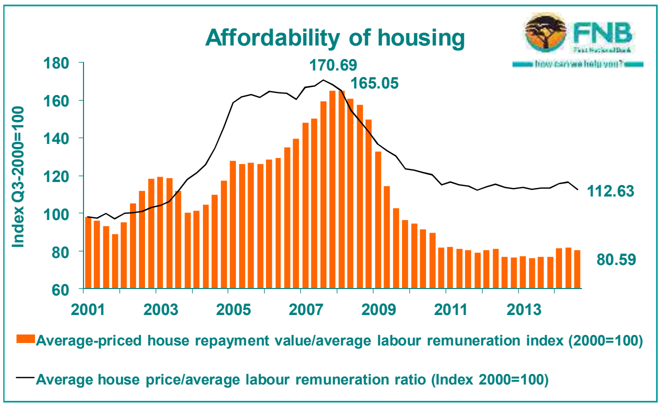


The relatively constant performance in the Lower Middle Income Area Band may be in line with our FNB Estate Agent Survey by segment, which points to something of a "relative comeback" in the areas priced between R500,000 and R1m, while segments higher up the price chain show early signs of slowing growth.

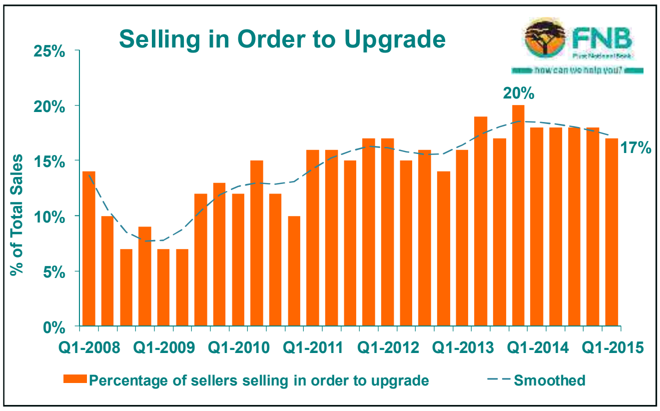
The slowing quarter-on-quarter growth rates are starting to translate into slower year-on-year rates, too, in all except the Lower Middle Income segment. The Upper Income year-on-year house price inflation rate was estimated at 8.8% in the 1st quarter of 2015, Middle Income Areas at 7.3%, Lower Middle Income Areas at 6.8% and Low Income Areas at 6.3%, but it is only the Lower Middle Income segment which has not seen any growth decline



The slowing house price growth, especially in the 2 highest priced segments, comes as little surprise. Through 2013/13 we have been seeing no significant further residential affordability improvements, if one compares average residential price/average income ratios or bond installment value/average income ratios, and this has begun to pose "growth limits" on residential demand.

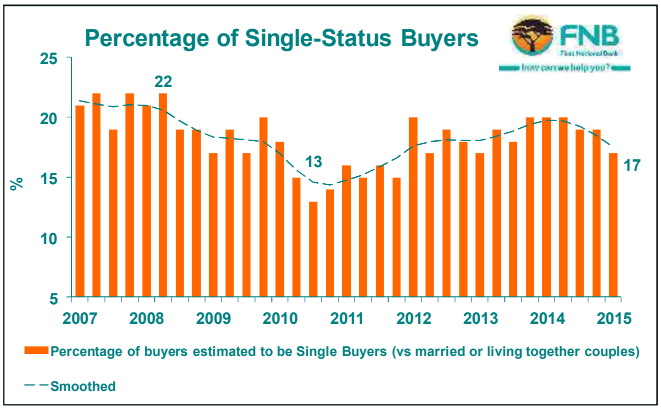


In our FNB Estate Agent Survey, the percentage of sellers selling in order to upgrade has diminished mildly, reflecting this lack of further affordability improvement.



Given that the highest percentage of "upgraders" emanates from the Lower Middle Income Area segment, a slowdown in the pace of residential upgrading may dampen support for the areas with average house price above R1m, and provide some support for the Lower Middle Income Area segment.

The lack of further affordability improvement has also arguably been evident in a decline in the estimated percentage of single-status home buyers (versus couples). Typically, single buyers have greater financial limits than couples, and thus become a smaller portion of the market in "tougher" times.



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