

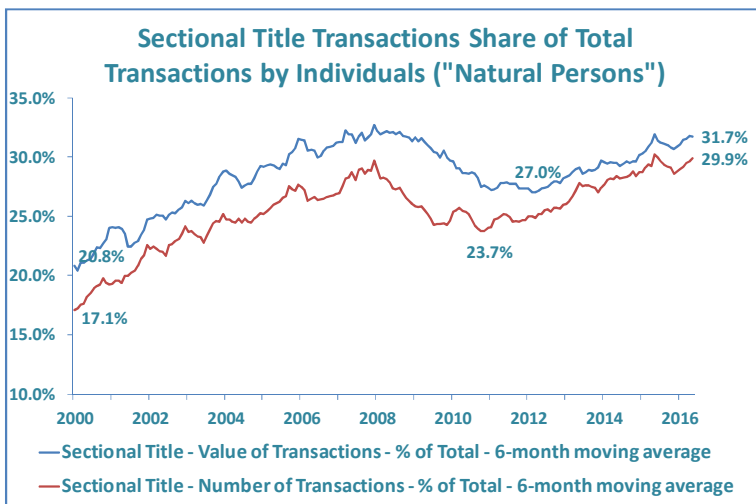
PROPERTY BAROMETER – House Price Indices by Segment

The Sectional Title Housing Market Segment has been experiencing a relatively strong period in recent years, but this may be cooling off mildly.

26 July 2016

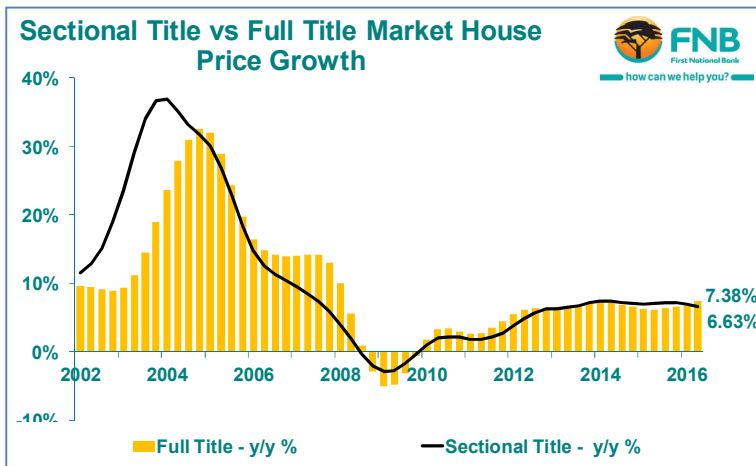
South Africa’s mounting urban land and infrastructure scarcity has been key not only in a “drive” towards smaller average sized properties, but also towards a more significant portion of Sectional Title homes, as we look to utilize land and infrastructure more economically.

In an attempt to measure the progress of the Sectional Title Segment’s growth, we use deeds data transactions by individuals only (“Natural Persons”), which we believe should be a good proxy for residential transactions by individual households.



Here, we see the number of Sectional Title transactions having increased in significance since 2010 after a 2008/8 recession dip.

Smoothing the data with a 6-month moving average, we see Sectional Title transactions volume having risen to 29.9% of total property transactions by individuals by May 2016, from a cyclical low of 23.7% late in 2010.

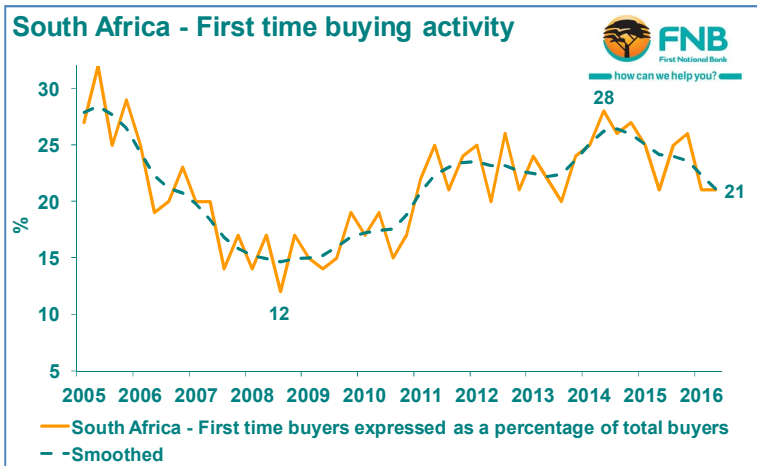


The relative recovery in Sectional Title transaction volumes more or less coincided with a post-recession recovery in 1st time buying levels from around 2010, with the more cyclical 1st time buyers believed to a significant source of demand for smaller-sized Sectional Title homes.

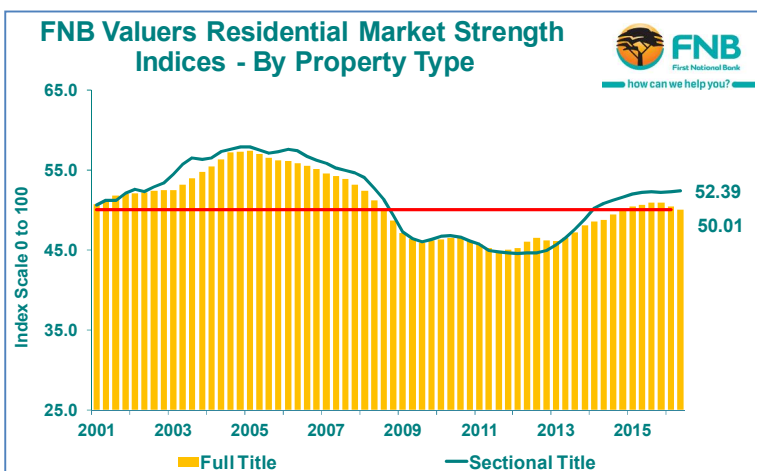
This period of relatively strong Sectional Title demand post-2010 contributed to the segment’s average house price inflation catching up with the Full Title average, and even marginally exceeding it through 2014 and 2015.

This, however, may have been changing in recent times. In the 2nd quarter of 2015, the FNB Sectional Title House Price Index saw a slightly slowing in year-on-year growth to 6.63%, from the previous quarter’s 7%. By comparison, the FNB Full Title House Price Index recorded slightly higher year-on-year increase of 7.38%.

The differences are not large, but off a higher base it has been the Sectional Title index’s price growth that has been slowing, and we believe that this has much to do with a recent slowing in the significance of 1st time buying in the housing market, which we believe should impact more significantly on Sectional Title.

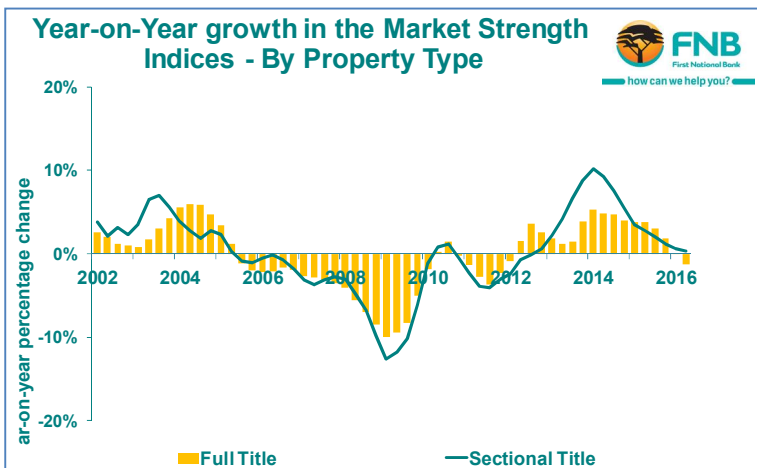


According to the FNB Estate Agent Survey, 1st time buying has declined in significance in recent times, from an estimated high of 28% of total home buying as at the 2nd quarter of 2014 to 21% of total home buying by the 2nd quarter of 2016. While still a relatively good percentage, 1st time buyers are more credit-dependent and thus interest rate-sensitive that repeat home buyers on average, and we believe that rising interest rates since early-2014 have been key in cooling off 1st time buyer levels mildly.



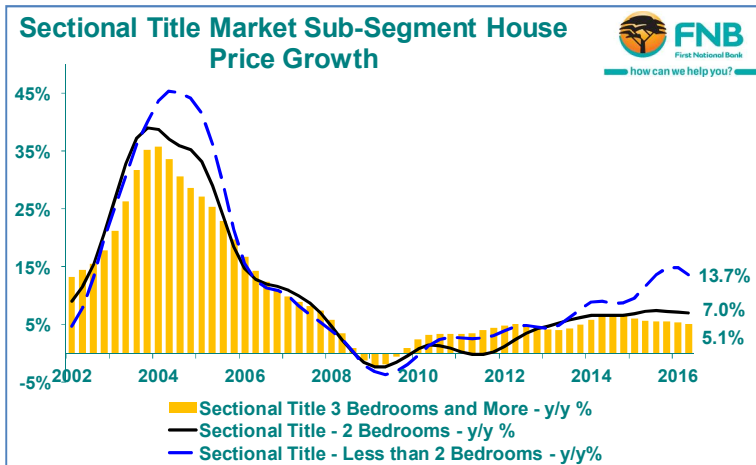
This, in turn, may have cooled Sectional Title demand just a bit more than that of Full Title.

As yet, though, our group of FNB Valuers still perceive a stronger Demand relative to Supply in the Sectional Title Market compared to Full Title, as reflected in the FNB Valuers' Market Strength Index (MSI) for Sectional Title property (explanatory notes on page 4) measuring 52.39 in the 2nd quarter of 2016, compared to Full Title's 50.01 level.



However, when we measure year-on-year growth of the MSI, we see a more significant slowing, from a higher growth rate, in the MSI for Sectional Title compared to the MSI for Full Title.

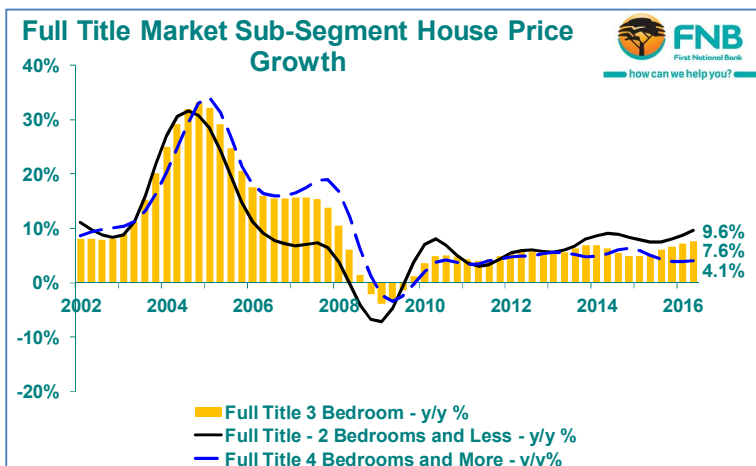
Within both the Full Title and Sectional Title segments, it is very clear that “smaller is better” when one compares the relative strength of the various sub-segments.



The smallest sized Sectional Title sub-segment, namely the “Less than 2 Bedroom” segment, still showed very strong double-digit price inflation to the tune of 13.7% in the 2nd quarter of 2016. Significantly behind was the 2 Bedroom sub-segment with 7.0% price growth, while the largest “3 Bedroom and More” category was the slowest sub-segment with 5.1% average price growth.

All 3 of these sub-segments showed slowing price growth.

In the Full Title segment, the same relative picture emerges.



The smallest sub-segment, i.e. the “2 Bedrooms and Less” category, showed the strongest price inflation to the tune of 9.6% in the 1st quarter of 2016.

This was followed by the 3 bedroom segment with 7.6%, while the largest “4 Bedroom and More” segment showed the slowest price growth of 4.1%.

Unlike the Sectional Title sub-segments, however, the 3 Full Title sub-segments had actually showed some small renewed house price growth acceleration.

In short, we believe that the solid levels of 1st time buyer demand, following the 2008/9 recession, supported Sectional Title home buying a little more than that of Full Title buying in recent years. However, 1st time buying is more interest rate sensitive and thus more cyclical on average, and the result has been some tapering off in the strength of this source of demand recently. This may be key in cooling Sectional Title house price growth in recent times.

The “star performing” sub-segment has been the Sectional Title Less than 2 Bedroom segment, which still showed double-digit price growth as at the 2nd quarter of 2016. However, its price growth, like the other 2 Sectional Title segments, has also started to slow.

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ADDENDUM - NOTES:

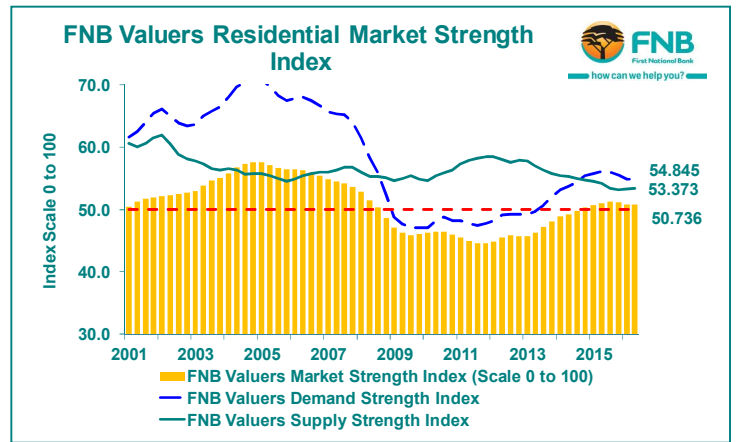
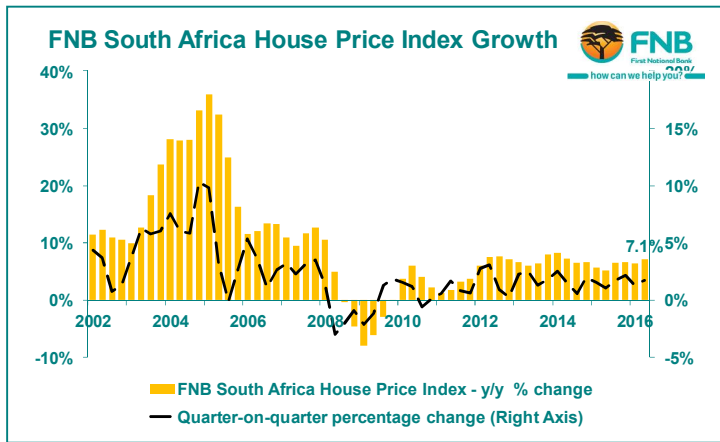
Key notes with regard to the FNB Segment House Price Indices by Title and Room Number:

- The Indices are constructed using transaction price data from homes financed by FNB.
- The minimum size cut-off for full title stands is 200 square metres, and the maximum size is 4000 square metres
- The maximum price cut-off is R10m, and the lower price cut-off is R20,000 (largely to eliminate major outliers and glaring inputting errors).
- The indices are very lightly smoothed using a Hodrick-Prescott smoothing function with a Lambda of 5.

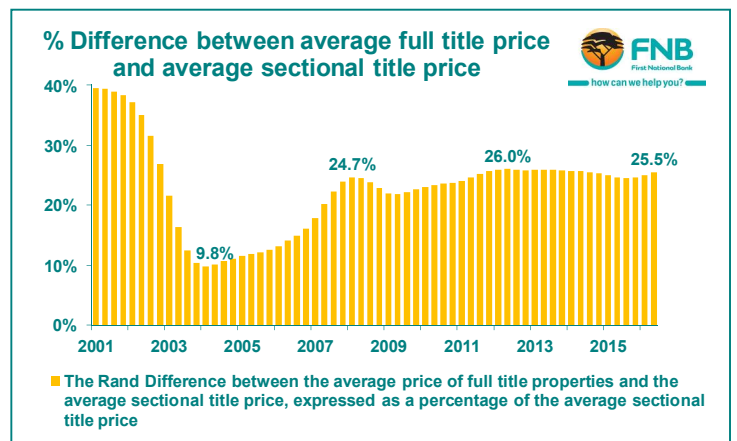
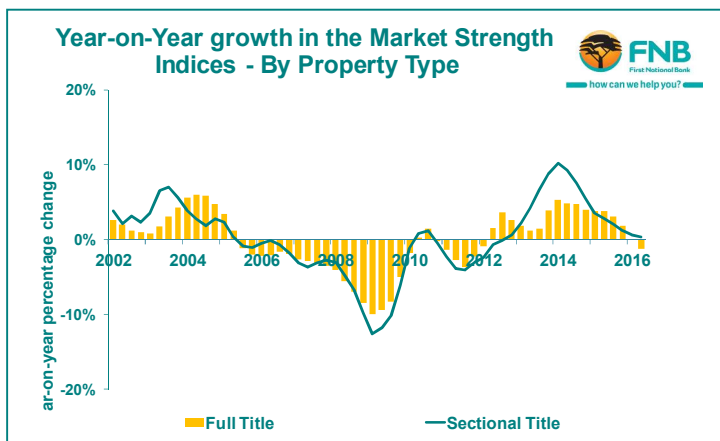
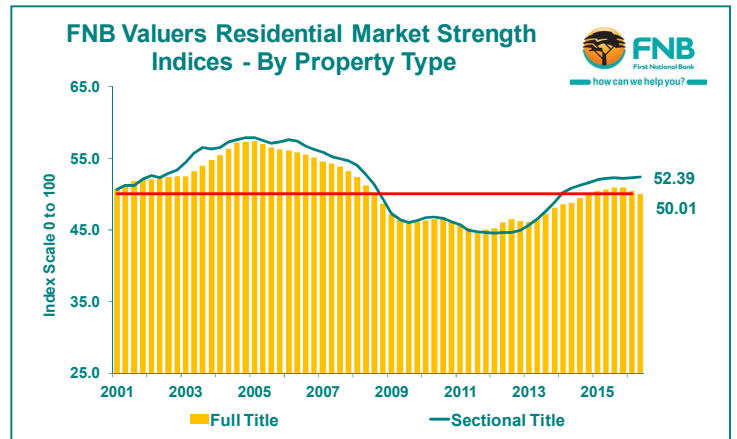
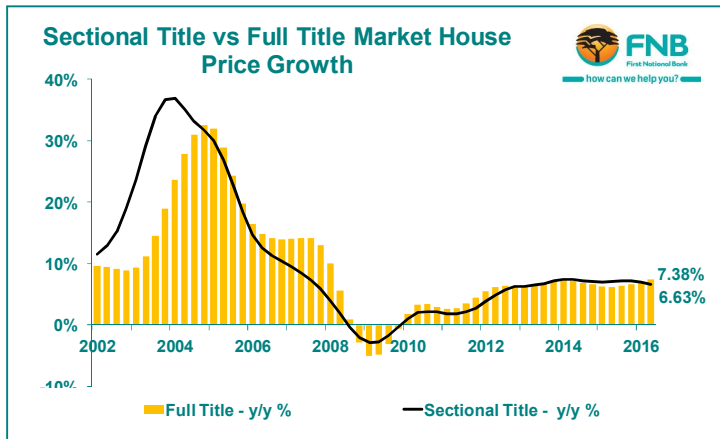
Note on the FNB Valuers' Market Strength Index: *When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple "good (100)", "average (50)", and "weak (0)". From all of these 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.

SEGMENT PERFORMANCES

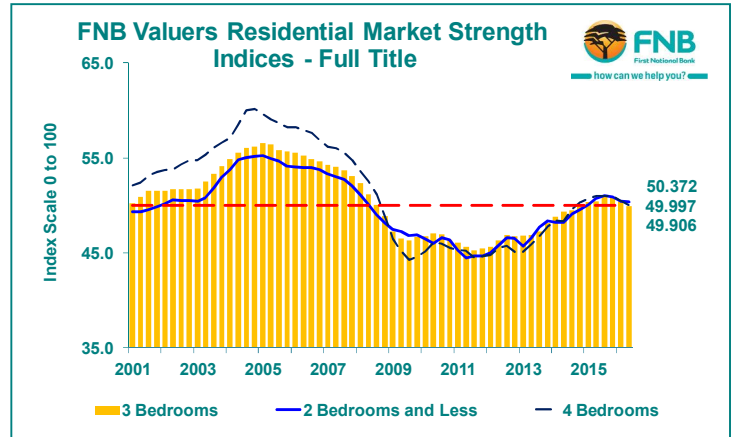
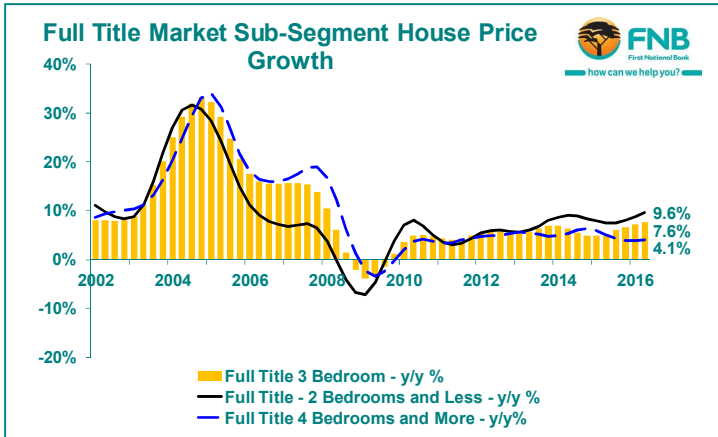
- Total Market**



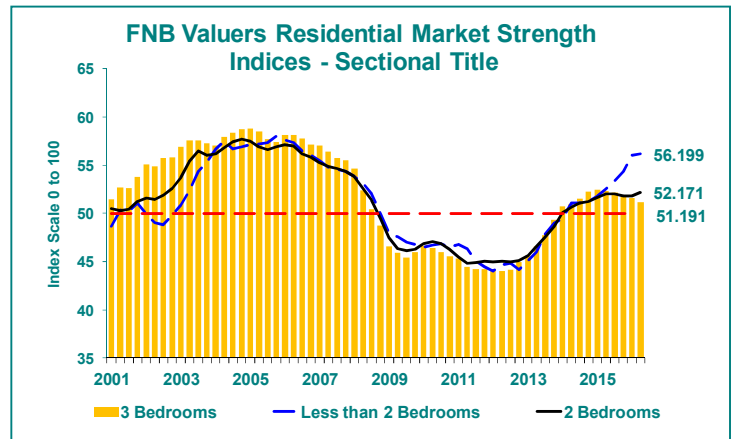
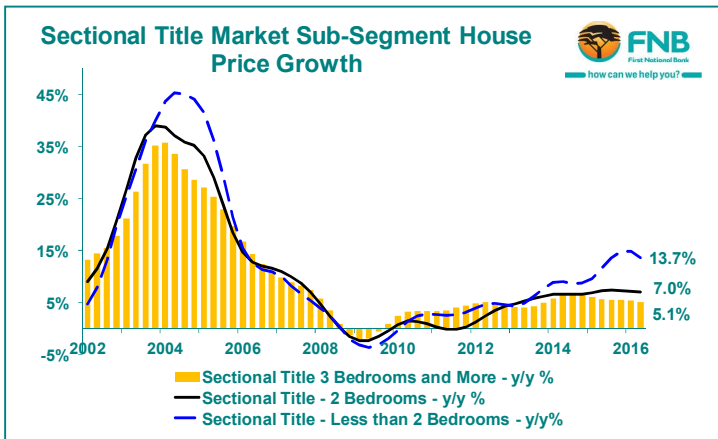
- Sectional Title vs Full Title**



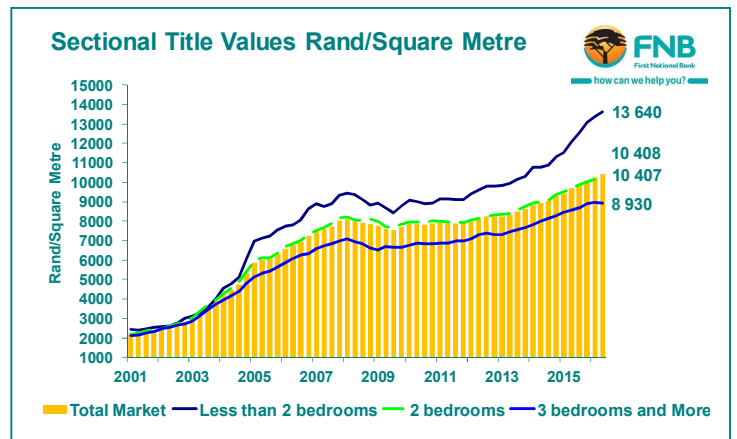
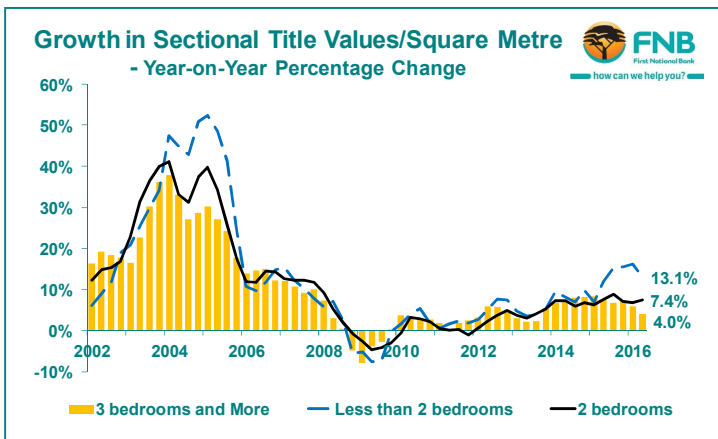
- **Full Title**



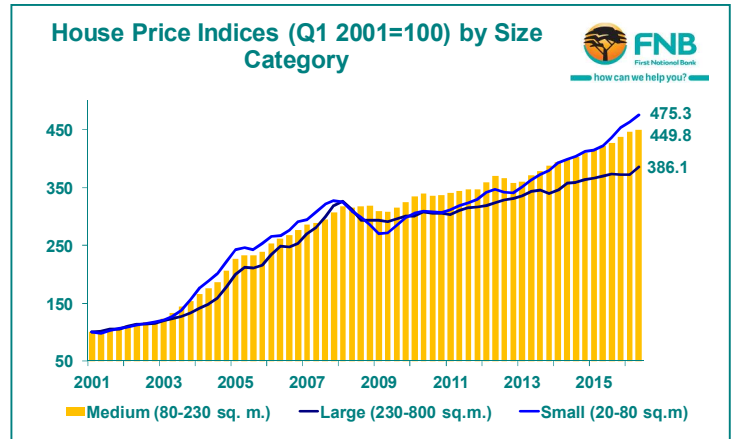
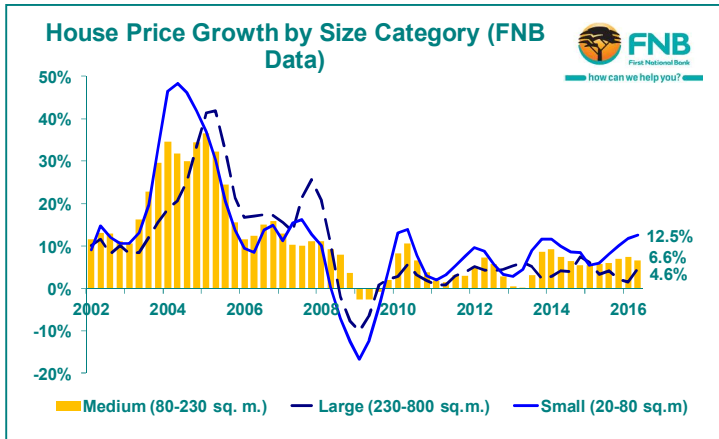
- **Sectional Title**



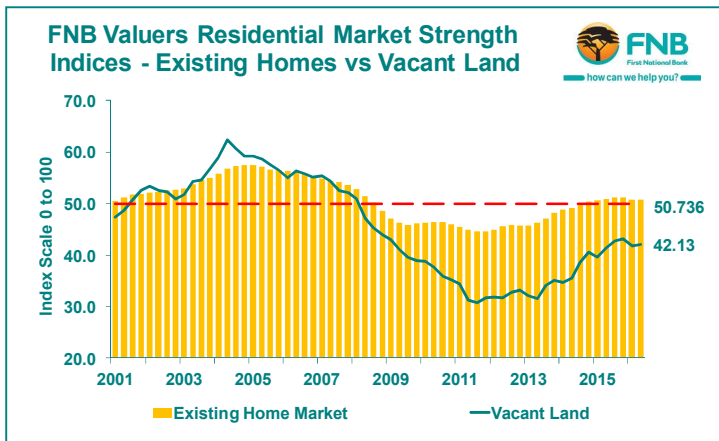
- **Sectional Title Per Square Metre**



- **Home Size Segments**



- **Existing Homes vs Vacant Land**



AVERAGE HOUSE PRICE BY MAJOR SEGMENT

	2012	2013	2014	2015	Q3-2015	Q4-2015	Q1-2016	Q2-2016
FULL TITLE SEGMENT								
Full Title Average Price (Rand)	905 408	965 762	1 033 247	1 098 954	1 107 092	1 126 938	1 147 733	1 169 280
- year-on-year % change	6.1%	6.7%	7.0%	6.4%	6.3%	6.6%	7.0%	7.4%
- quarter-on-quarter % change					1.7%	1.8%	1.8%	1.9%
2 Bedrooms and Less (Rand)	468 245	499 319	543 257	585 195	589 970	603 695	618 938	634 152
- year-on-year % change	5.8%	6.6%	8.8%	7.7%	7.5%	8.0%	8.9%	9.6%
- quarter-on-quarter % change					2.0%	2.3%	2.5%	2.5%
3 Bedroom (Rand)	941 595	998 815	1 057 848	1 118 149	1 126 618	1 147 506	1 169 170	1 191 724
- year-on-year % change	5.6%	6.1%	5.9%	5.7%	6.0%	6.7%	7.2%	7.6%
- quarter-on-quarter % change					1.7%	1.9%	1.9%	1.9%
4 Bedrooms and More (Rand)	1 493 071	1 571 681	1 660 861	1 740 561	1 748 498	1 765 563	1 783 348	1 802 592
- year-on-year % change	5.0%	5.3%	5.7%	4.8%	4.3%	3.9%	3.9%	4.1%
- quarter-on-quarter % change					1.0%	1.0%	1.0%	1.1%
SECTIONAL TITLE SEGMENT AVERAGE HOUSE PRICE								
Sectional Title Average House Price (Rand)	719 109	767 203	823 093	881 447	873 721	888 939	903 870	917 801
- year-on-year % change	5.2%	6.7%	7.3%	7.1%	7.0%	7.2%	7.2%	6.9%
- quarter-on-quarter % change					1.8%	1.7%	1.7%	1.5%
Less than 2 Bedroom (Rand)	492 892	521 534	567 530	638 234	649 980	672 659	692 980	712 623
- year-on-year % change	4.5%	5.8%	8.8%	12.5%	13.6%	14.8%	14.8%	13.7%
- quarter-on-quarter % change					3.7%	3.5%	3.0%	2.8%
2 Bedroom (Rand)	640 537	675 927	720 642	772 981	779 692	792 972	806 448	820 029
- year-on-year % change	2.9%	5.5%	6.6%	7.3%	7.5%	7.3%	7.2%	7.0%
- quarter-on-quarter % change					1.7%	1.7%	1.7%	1.7%
3 Bedrooms and More (Rand)	997 381	1 041 601	1 107 491	1 170 819	1 179 177	1 194 928	1 208 377	1 221 998
- year-on-year % change	4.9%	4.4%	6.3%	5.7%	5.6%	5.6%	5.4%	5.1%
- quarter-on-quarter % change					1.4%	1.3%	1.1%	1.1%
SECTIONAL TITLE PER SQUARE METRE								
Sectional Title Average Price (Rand/square)	8 165	8 427	9 026	9 775	9 875	10 101	10 235	10 408
- year-on-year % change	3.4%	3.2%	7.1%	8.3%	9.4%	8.7%	8.3%	7.6%
- quarter-on-quarter % change					2.1%	2.3%	1.3%	1.7%
Less than 2 Bedroom (Rand/square metre)	9 650	10 063	10 929	12 295	12 532	13 071	13 378	13 640
- year-on-year % change	5.8%	4.3%	8.6%	12.5%	15.3%	15.5%	16.2%	13.1%
- quarter-on-quarter % change					3.9%	4.3%	2.4%	2.0%
2 Bedroom (Rand/square metre)	8 187	8 511	9 090	9 770	9 873	10 020	10 147	10 407
- year-on-year % change	2.9%	4.0%	6.8%	7.5%	8.9%	7.2%	6.8%	7.4%
- quarter-on-quarter % change					1.9%	1.5%	1.3%	2.6%
3 Bedrooms and More (Rand/square metre)	7 268	7 499	8 058	8 658	8 689	8 898	8 956	8 930
- year-on-year % change	4.8%	3.2%	7.5%	7.4%	6.8%	7.2%	5.9%	4.0%
- quarter-on-quarter % change					1.2%	2.4%	0.7%	-0.3%