

## PROPERTY BAROMETER – FNB Area Value Band House Price Indices

*The Luxury Area Value Band has seen the most noticeable price growth slowdown since 2014, while the Lower End has done a little better of late.*

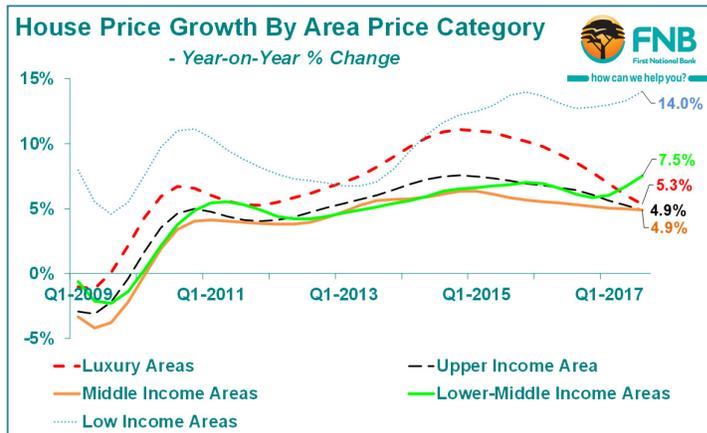
17 October 2017

### 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 = R2.271 million), the Upper Income Area House Price Index (Average Price = R1.231 million), the Middle Income Area House Price Index (Average Price = R873,238), the Lower Middle Income Area House Price Index (Average Price = R569,505), and the Low Income Area House Price Index (Average Price = R345,208)

The 3<sup>rd</sup> quarter 2017 results show some further slowing in the year-on-year house price growth rates of the 3 highest priced area value bands, but some acceleration in the growth of the 2 lowest priced ones.



The Low Income Area House Price Index was the strongest performer in terms of year-on-year house price growth, recording 14% year-on-year for the 3<sup>rd</sup> quarter. This is an acceleration on the prior quarter's revised 13.3%.

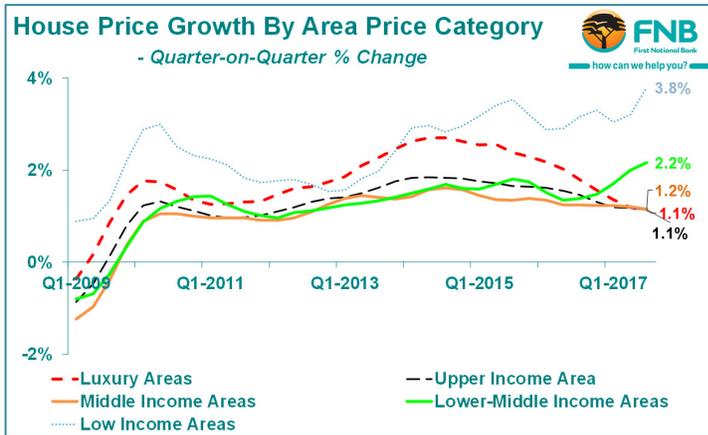
We must caution, however, about major potential distortions in this index. This index includes the subsidized housing component, and new homes in this category, which are not sold to their new owners, are registered at a value with the deeds office which does not reflect any

market value. Over the years, there have also been periodic sell-offs of rental stock by councils which have not necessarily taken place at market value. Such distortions mean that in a repeat sales index for Low Income Areas, many homes prices come of a very low base not reflective of market values, and show major price inflation when resold at market value at a later stage. **We are thus very careful as to how we interpret the results in this Low Income Area Value Band.**

Moving 1 value band up, however, we also see some acceleration in the Lower Middle Income Area Value Band's year-on-year house price growth, from a 2<sup>nd</sup> quarter 6.7% to 7.5% in the 3<sup>rd</sup> quarter. This value band now boasts the 2<sup>nd</sup> highest average house price growth.

In the 3 area value bands above this, however, year-on-year house price growth slowed in the 3<sup>rd</sup> quarter of 2017, the Middle Income Area Value Band from 5% in the 2<sup>nd</sup> quarter to 4.9%, the Upper Income Area Value Band from 5.2% to 4.9%, and the Luxury Area Value Band from 6.1% to 5.3%.

Therefore, while not yet having the slowest year-on-year house price growth, the Luxury Area Value Band's rate has slowed the most noticeably in the 3<sup>rd</sup> quarter of 2017.



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 the 3 highest priced area value bands. The Luxury and Upper Income Area Value Bands both showed quarter-on-quarter growth of 1.1% in the 3<sup>rd</sup> quarter, with Middle Income Areas slightly higher at 1.2%.

Noticeably higher growth was seen in the Lower Middle Income Area Value Band, to the tune of 2.2%, and Low Income Areas

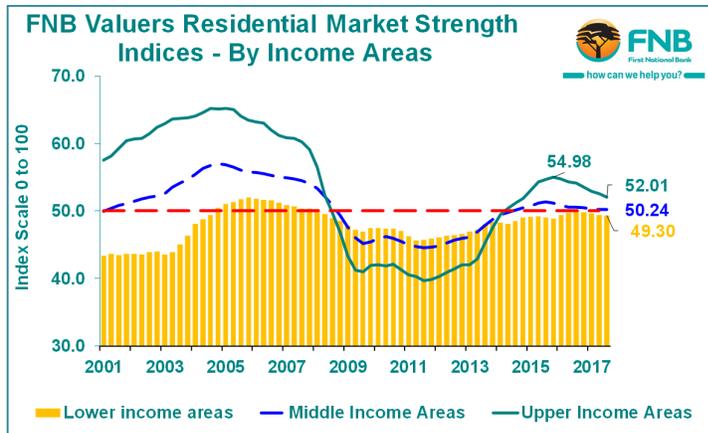
(with all the above-mentioned warnings) at 3.8%.

**This, in short, all points to superior performance at the lower-priced end of the market where average process are well-below R1m.**

The most significant year-on-year house price growth slowing in recent years has been in the Luxury Area Value Band, from an 11.1% high back in the final quarter of 2014 to the most recent 5.3%, followed by the Upper Income Value Band whose growth has slowed from 7.5% at the end of 2014 to 4.9%.

**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.



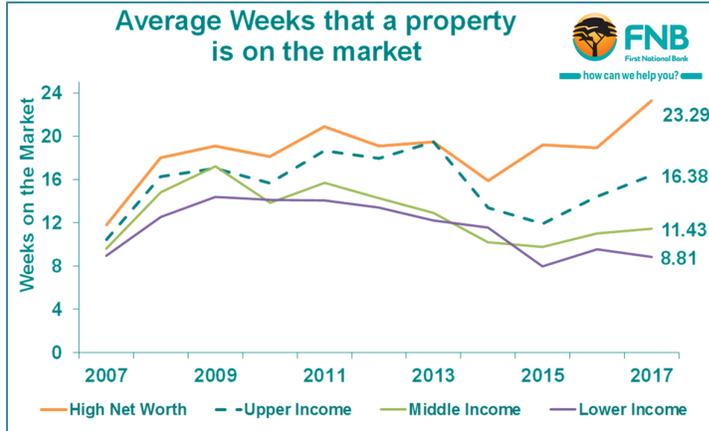
In the FNB Valuers' Market Strength Indices (MSI) by Income Areas (self-defined by the valuers), the Upper Income Area MSI has weakened the most, from a multi-year high of 54.98 at the end of 2015 to 52.01 in the 3<sup>rd</sup> quarter of 2017. By comparison, the Middle Income Area MSI has declined slightly from 51.30 in the 3<sup>rd</sup> quarter of 2015 to 50.24 in the 3<sup>rd</sup> quarter of 2017, while the Lower Income Area MSI has only shown a more recent very slight decline from 49.92 in the 3<sup>rd</sup> quarter of 2016 to 49.30 by the 3<sup>rd</sup> quarter of this

year.

As yet, however, the valuers as a group have not perceived a strengthening at the Lower Income Area End.

**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 tend to “naturally” 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 (High Net Worth) 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 = R1.26 million) showed an average time of homes on the market of 11.54 weeks. This average time has shortened to an 8.81 week average for the 1<sup>st</sup> 3 quarters of 2017. Middle Income Areas (average price = R1.60 million) saw average time on market go slightly higher from 10.18 weeks average in 2014 to 11.43 weeks in the 1<sup>st</sup> 3 quarters of 2017.

The increase in average time on the market in the Upper Income Area segment (average price = R3.44 million) was more significant, from 13.36 weeks in 2014 to 16.38 weeks in the 1<sup>st</sup> 3 quarters 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 = R7.07 million), rising from 15.86 weeks in 2014 to 23.29 weeks in the 1<sup>st</sup> 3 quarters 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 area value band house price index segmentations, this picture broadly 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 3 highest priced FNB Area Value Band House Price Indices has near completely converged, with all 3 of these segments having shown recent growth slowing.

However, the Lower Middle Income and Low Income Area Value Bands have shown some recent renewed acceleration in price growth.

This does not come as too much of a surprise, given the financially constrained household sector in a weak economy, and multi-year weakness in consumer confidence. The result is, on average, a more financially cautious household searching for greater home affordability, which should mean some shift in demand towards the more affordable areas of the market.

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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	Q4-2016	Q1-2017	Q2-2017	Q3-2017
<b>HOUSE PRICE INDICES BY AREA VALUE BAND</b>							
<b>Luxury Areas (Index Q1 2001 = 100)</b>	532.0	588.5	640.3	656.8	665.7	673.7	681.2
- year-on-year % change	10.6%	10.6%	8.8%	7.8%	6.9%	6.1%	5.3%
- quarter-on-quarter % change				1.6%	1.4%	1.2%	1.1%
<b>Upper Income Areas (Index Q1 2001 = 100)</b>	448.6	480.9	512.1	522.8	529.0	535.3	541.4
- year-on-year % change	7.3%	7.2%	6.5%	6.1%	5.6%	5.2%	4.9%
- quarter-on-quarter % change				1.3%	1.2%	1.2%	1.1%
<b>Middle Income Areas (Index Q1 2001 = 100)</b>	456.1	483.4	509.4	518.9	525.2	531.6	537.7
- year-on-year % change	6.0%	6.0%	5.4%	5.2%	5.0%	5.0%	4.9%
- quarter-on-quarter % change				1.2%	1.2%	1.2%	1.2%
<b>Lower-Middle Income Areas (Index Q1 2001 = 100)</b>	520.1	555.6	590.9	603.4	613.7	625.9	639.5
- year-on-year % change	6.1%	6.8%	6.4%	5.8%	6.0%	6.7%	7.5%
- quarter-on-quarter % change				1.5%	1.7%	2.0%	2.2%
<b>Low Income Areas (Index Q1 2001 = 100)</b>	643.0	728.5	823.7	862.9	889.2	917.6	952.5
- year-on-year % change	11.0%	13.3%	13.1%	12.8%	13.0%	13.3%	14.0%
- quarter-on-quarter % change				3.3%	3.0%	3.2%	3.8%