

PROPERTY BAROMETER – FNB Area Value Band House Price Indices

The Luxury Area Value Band has seen the most significant price growth slowdown since 2014, while the Lower End has done better in recent quarters. But there may be signs of the higher end starting to “stabilise”

13 February 2018

FNB AREA VALUE BAND HOUSE PRICE INDEX PERFORMANCES

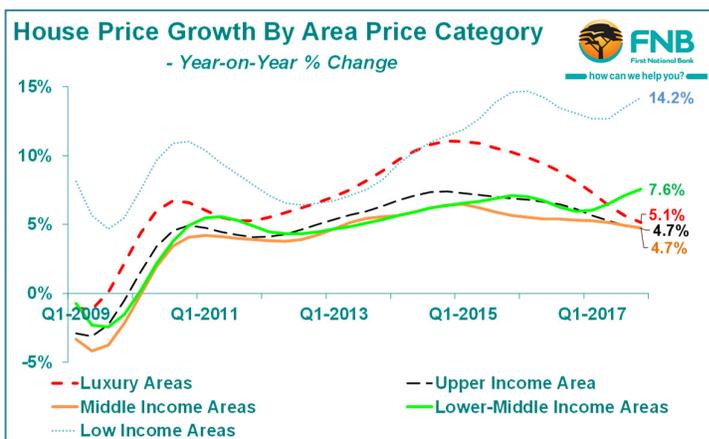
We compile 5 FNB Area Value Band House Price Indices (see note at the end of this report regarding the methodology). These indices group areas according to their average home transaction values, using deeds data, and include all cities and towns in South Africa.

The 5 indices are the Luxury Area House Price Index (Average Price = R2.335 million), the Upper Income Area House Price Index (Average Price = R1.242 million), the Middle Income Area House Price Index (Average Price = R887,930), the Lower Middle Income Area House Price Index (Average Price = R583,858), and the Low Income Area House Price Index (Average Price = R362,110)

The 4th 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 further acceleration in the growth of the 2 lowest priced ones.

The Low Income Area House Price Index was again the strongest performer in terms of year-on-year house price growth, recording 14.2% year-on-year for the 4th quarter. This is an acceleration on the prior quarter’s revised 13.5%.

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**



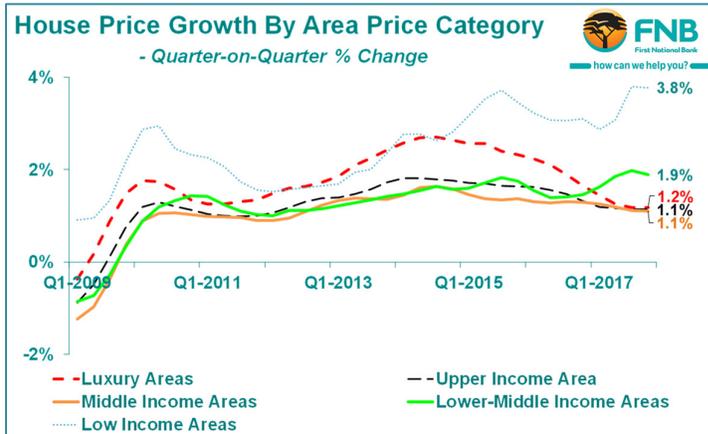
results in this Low Income Area Value Band.

Moving 1 value band up, however, we perhaps see more reliable support for the view that the lower end has recently been showing relative strength, with some acceleration in the Lower-Middle Income Area Value Band’s year-on-year house price growth, from a 3rd quarter 7.1% to 7.6% in the 4th quarter. This value band now boasts the 2nd highest average house price growth.

In the 3 area value bands above this, however, year-on-year house price growth slowed in the 4th quarter of 2017, the Middle Income Area Value Band from 4.9% in the 3rd quarter to 4.7%, the Upper Income Area Value Band also from 4.9% to 4.7%, and the Luxury Area Value Band from 5.6% to 5.1%.

Therefore, while not yet having the slowest year-on-year house price growth, the Luxury Area Valua Band's rate has again slowed the most noticeably in the 4th 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 Income Area Value Band showed quarter-on-quarter growth of 1.2% in the 4th quarter, while the Upper and Middle Income Areas Value Bands showed slightly slower 1.1% growth.



Noticeably higher growth was seen in the Lower Middle Income Area Value Band, to the tune of 1.9%, 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.

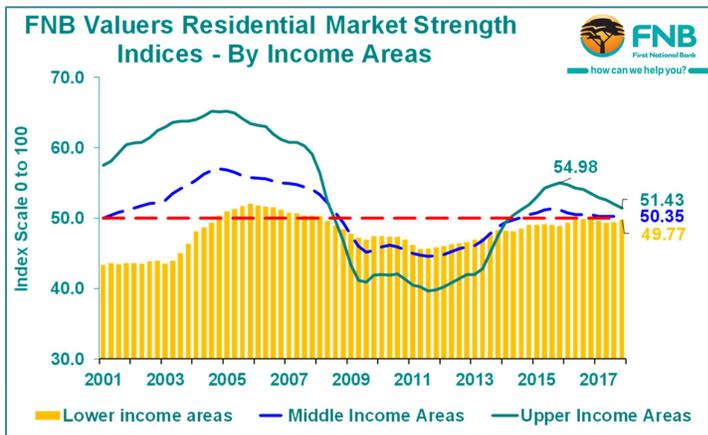
However, the quarter-on-quarter house price growth rates for the top 3 value bands were all unchanged from their rates in the previous quarter, possibly

suggesting that these market are heading towards “stabilization”, and the end of slowing house price growth.

The most significant year-on-year house price growth slowing in recent years has been in the Luxury Area Value Band, from an 11% high back in the final quarter of 2014 to the most recent 5.1%, followed by the Upper Income Value Band whose growth has slowed from 7.4% at the end of 2014 to 4.7%. But stabilizing quarter-on-quarter growth rates of late may suggest that this year-on-year slowing is near its end.

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.

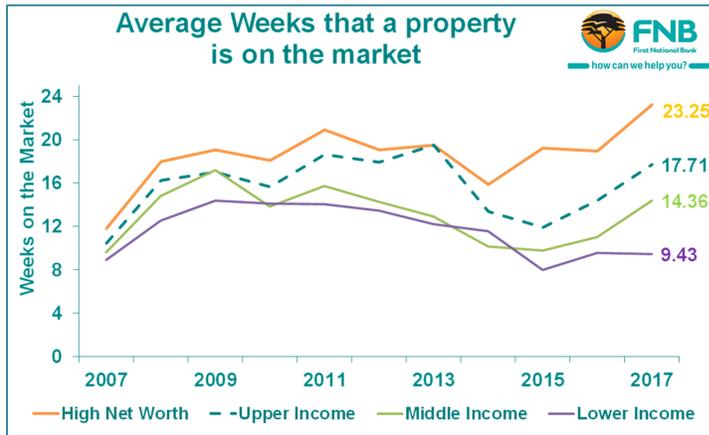


In the FNB Valuers' Market Strength Indices (MSI) by Income Areas (self-defined by the valuers), the Upper Income Area MSI has weakened the most, from a multi-year high of 54.98 at the end of 2015 to 51.43 in the 4th quarter of 2017. By comparison , the Middle Income Area MSI has declined slightly from 51.13 in the 3rd quarter of 2015 to 50.35 in the 4th quarter of 2017, while the Lower Income Area MSI is marginally up from an end-of-2015 48.86, to 49.77 in the final quarter of 2017.

In the past 2 quarters, the valuers as a group have even perceived a slight 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 = R1.086 million) showed an average time of homes on the market of 11.54 weeks. This average time has shortened to a 9.43 weeks average for the entire 2017. Middle Income Areas (average price = R2.067 million) saw average time on market go higher from a 10.18 weeks average in 2014 to 14.36 weeks in 2017. The increase in average time on the market in the Upper Income Area segment (average price = R2.955 million) was also significant, from 13.36 weeks in 2014 to 17.71 weeks in 2017. But the most significant increase in average time on the market was to be found in the “High Net Worth” Areas (average value = R6.193 million), rising from 15.86 weeks in 2014 to 23.25 weeks 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 from 2014 to 2017. 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 narrowed of late, with all 3 of these segments having shown recent growth slowing. But unchanged quarter-on-quarter growth rates in the 3 most expensive area value bands suggests that slowing year-on-year growth in these 3 value bands may be near its end.

However, the Lower Middle Income and Low Income Area Value Bands saw further accelerations in house price growth in the 4th quarter, and outperformed the rest.

Sentiment in South Africa early in 2018 seems improved, leading economic indicators have been pointing towards a strengthening economy in the near term, and it seems plausible that 2018 could be a mildly stronger year for all housing market segments. However, we believe that despite any economic improvement the Household Sector will remain financially constrained, searching for home affordability as a result, and that this will lead to the lower priced value bands continuing to outperform the higher end this year.

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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

	2015	2016	2017	Q1-2017	Q2-2017	Q3-2017	Q4-2017
HOUSE PRICE INDICES BY AREA VALUE BAND							
Luxury Areas (Index Q1 2001 = 100)	587.7	640.8	679.9	667.6	676.0	684.0	692.0
- year-on-year % change	10.7%	9.0%	6.1%	7.3%	6.4%	5.6%	5.1%
- quarter-on-quarter % change				1.4%	1.3%	1.2%	1.2%
Upper Income Areas (Index Q1 2001 = 100)	479.0	510.0	536.2	527.0	533.2	539.2	545.4
- year-on-year % change	7.1%	6.5%	5.1%	5.7%	5.3%	4.9%	4.7%
- quarter-on-quarter % change				1.2%	1.2%	1.1%	1.1%
Middle Income Areas (Index Q1 2001 = 100)	482.5	508.5	534.0	524.9	531.1	537.0	543.0
- year-on-year % change	6.0%	5.4%	5.0%	5.2%	5.1%	4.9%	4.7%
- quarter-on-quarter % change				1.3%	1.2%	1.1%	1.1%
Lower-Middle Income Areas (Index Q1 2001 = 100)	555.1	591.0	631.2	613.5	624.9	637.3	649.3
- year-on-year % change	6.8%	6.5%	6.8%	6.0%	6.5%	7.1%	7.6%
- quarter-on-quarter % change				1.6%	1.9%	2.0%	1.9%
Low Income Areas (Index Q1 2001 = 100)	722.3	822.0	931.1	884.5	911.7	946.3	982.1
- year-on-year % change	13.3%	13.8%	13.3%	12.7%	12.7%	13.5%	14.2%
- quarter-on-quarter % change				2.9%	3.1%	3.8%	3.8%