

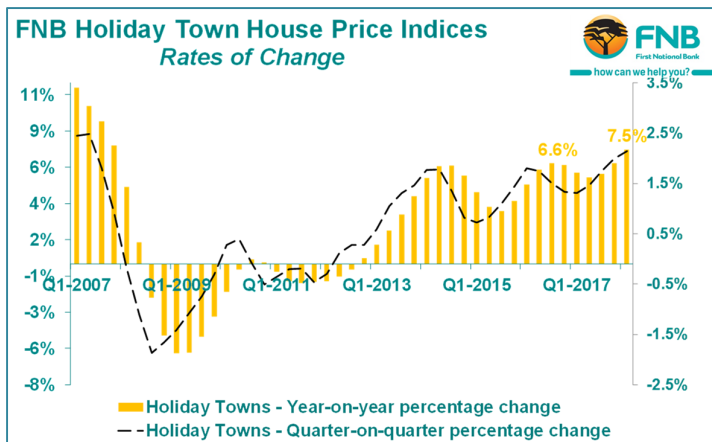
PROPERTY BAROMETER – FNB Holiday Towns House Price Index

While we have long held the belief that the Holiday Town market should underperform the National Housing Market in currently mediocre economic times, they continue to “outperform” mildly. Have we missed something? Perhaps

4 May 2018

RECENT FNB HOLIDAY TOWN HOUSE PRICE INDEX PERFORMANCE

The FNB Holiday Towns House Price Index, comprising towns (both coastal and inland) whose housing markets are deemed to be strongly driven by holiday home demand, continue to show a mild “outperformance” in terms of house price growth, relative to the overall national market. Holiday home demand remains at reasonable levels according to our Estate Agent Survey, but perhaps retirement migration provides significant support to such markets too.

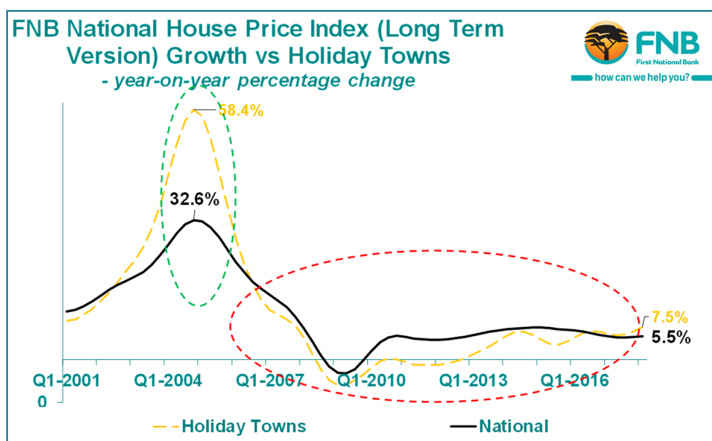


The FNB Holiday Towns House Price Index continued to mildly surprise us on the “upside” during the 1st quarter of 2018.

From a revised average year-on-year rate of 6.7% in the final quarter of 2017, the index’s growth rate accelerated further to 7.5% in the 1st quarter of 2018.

This was the 3rd consecutive quarter of mild growth acceleration.

This means that, of late, Holiday Town house price growth slightly exceeds the National average house price growth rate.



When we compile a National House Price Index based on the same repeat sales methodology of the Holiday Towns Index (Note that this deeds data compiled national index is not the same as our monthly FNB House Price Index, which runs off FNB data according to a different methodology), that index inflated at 5.5% in the 1st quarter of 2018. This growth difference means that our expectation that the Holiday Town Index should generally underperform the National Index in currently weak economic times, as it did for much of the past decade, has

not materialized of late.

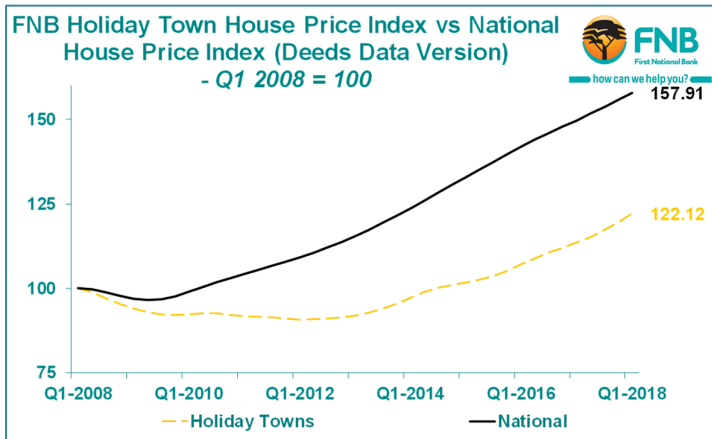
POTENTIAL KEY DRIVERS OF HOLIDAY TOWN HOUSING MARKET

It must be emphasized that nothing is booming at present, not holiday towns and not major metros. We are merely pointing to a mild “outperformance” on the FNB Holiday Town House Price Index over the National Index, but with both anchored in single-digit growth territory.

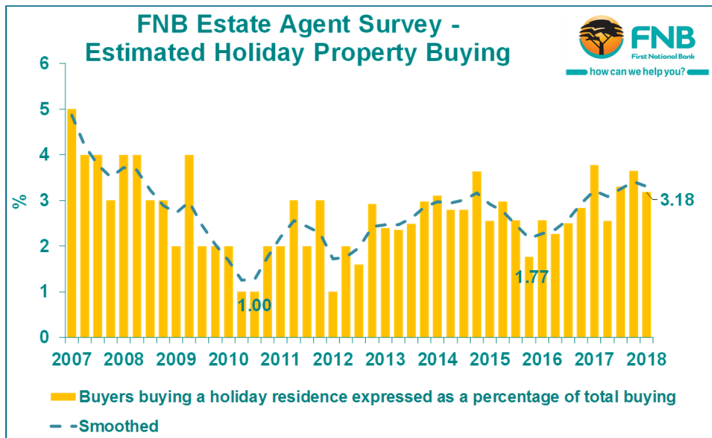
But is there something that we may have missed regarding sources of demand for homes in towns that we regard as traditional holiday towns? Possibly.

A 1st possible reason for the recent price growth “outperformance” of the holiday towns group can merely be that, after many years of “underperformance”, affordability has improved more in these towns than in major metro regions, which has supported demand recently, and caused a “superior” price growth outperformance off a lower base than the national market.

From the start of 2008 to the 1st quarter of 2018, the FNB Holiday Towns House Price Index achieved a mere



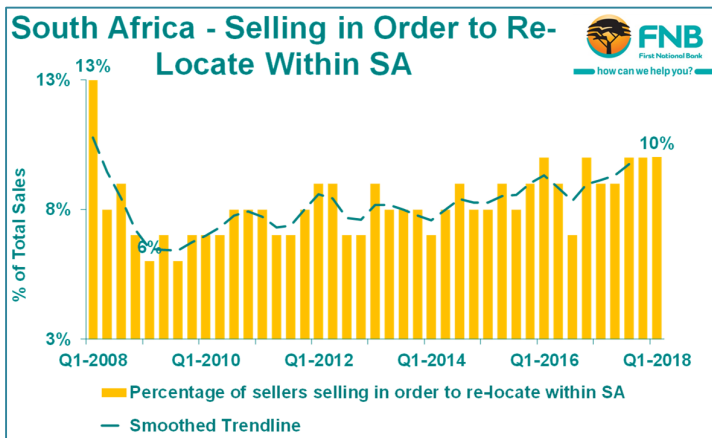
22.12% cumulative growth, a decline in real terms with this index not nearly keeping up with general wage/income inflation or consumer price inflation. By comparison, the National House Price Index achieved a far more significant 57.91% cumulative growth rate. This was to be expected, with holiday home buying being relatively-speaking on the “backburner” for some years following the end of the pre-2008 housing bubble, and with economic performance over the past decade never reaching the highs of the pre-2008 boom years.



So, perhaps driven by an improvement in holiday town home affordability over the past decade, with holiday town house prices growing slower than incomes, the FNB Estate Agent Survey points to holiday home buying having been, not booming, but nevertheless fairly “solid” recently.

The agents estimate that 3.18% of total home buying is holiday home buying. This is down on the previous quarter’s 3.65%, but the recent 3%+ levels are reasonably good compared to the 1.77% low reached in the 3rd quarter of 2015, or 1% levels

estimated at stages of 2010 and 2012.



But the demand driver that we may have underestimated is the level of migration in search of lifestyle, especially of retirees. The FNB Estate Agent Survey shows an estimated 10% of total sellers selling to relocate to another part of South Africa. This percentage remains “elevated” since the 6% low point reached in the 2008/9 recession, and has shown no sign of slowing yet.

What is also told to us by agents surveyed is that of those relocating from Gauteng, a significant portion are looking to

relocate to retire, many to coastal regions. It is perhaps this potential source of demand for property in certain traditional holiday towns that we have been under-estimating.

We have long been aware of a portion of inland retirees relocating to the coast. However, as yet we have not been able to estimate the magnitude with statistics. We know, too, that a significant number of “up-country” retirees has chosen the City of Cape Town and surrounding “nonholiday” towns as their retirement destination in recent years. However, City of Cape Town and surroundings have seen sharp deteriorations in their housing affordability. Does that shift a greater portion of retiree demand out towards the more traditional holiday towns? And does the fact that the City of Cape Town has become far more congested in recent years lead to more of its own retirees heading out to quieter coastal holiday towns than was previously the case?

It will certainly be worth watching regions such as the Southern Cape and KZN coast, typically strong holiday home regions, to see what the levels of home demand for retirement purposes are from especially inland “migrants” in the near future. It is possible that a significant portion of inland retiree demand for coastal property may shift to “less-inflated” coastal regions such as the Southern Cape or KZN coast.

Traditional holiday town housing demand may become less about demand for holiday homes and more about housing demand for retirement and lifestyle, demand which may have previously headed for Cape Town in its more affordable days.

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Note:

The FNB Holiday Town House Price Index is derived from Deeds Office Data, utilizing only property transactions by individuals (“natural persons”) in towns deemed to possess residential markets strongly driven by holiday home demand.

The index methodology used is a “repeat sales” methodology

The FNB National House Price Index quoted in this report is also compiled from deeds data using the same methodology as the Holiday Town House Price Indices. It is thus comparable with the Holiday Town House Price Indices, but is a different house price index to the monthly FNB National House Price Index (our “official” house price index, which is compiled using FNB-specific data and according to a different methodology).