

PROPERTY BAROMETER – FNB Holiday Towns House Price Indices

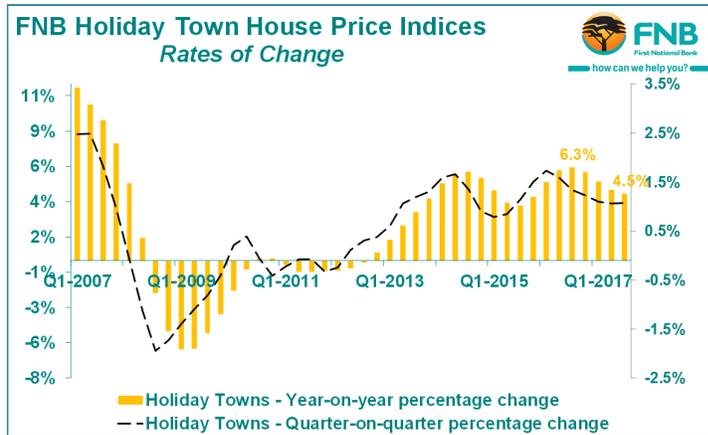
The FNB Holiday Town House Price Index continues its recent slowing growth trend, and we remain of the belief that this market segment should “underperform” the national market in tougher economic times.

19 October 2017

RECENT FNB HOLIDAY TOWN HOUSE PRICE INDEX PERFORMANCE

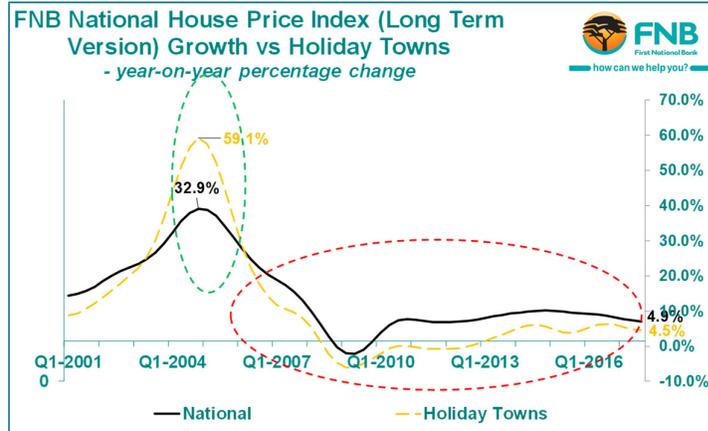
The FNB Holiday Towns House Price Index, comprising towns (both coastal and inland) whose housing markets are deemed to be strongly driven by holiday home demand, has had a reasonably good run since around 2013. But signs of softening have emerged.

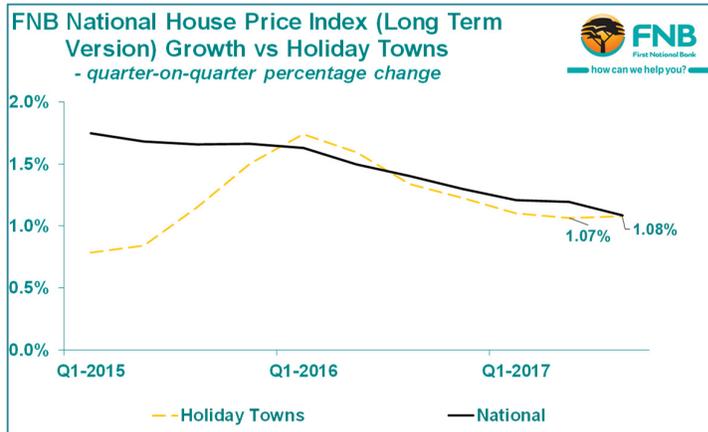
In recent quarters the FNB Holiday Towns House Price Index has seen its growth lose some momentum on a year-on-year basis, from a revised “relative” high of 6.3% year-on-year as at the 3rd quarter of 2016 to 4.5% by the 3rd quarter of 2017.



4.5% year-on-year price growth remains a reasonable rate in a weak economy. However, this does translate into negative real growth, given that it is now below consumer price inflation which battles to remain below 5%.

It is realistic to expect slower holiday town markets, possibly underperforming the more primary residence-driven major metro regions, given that a tighter economy will probably drive the emergence of more conservative households, increasingly concerned about their financial future. In such an environment, non-essential home buying such as holiday homes is less of a priority. And indeed, 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 slightly faster to the tune of 4.9% in the 3rd quarter of 2017. This growth difference, though, is negligible.





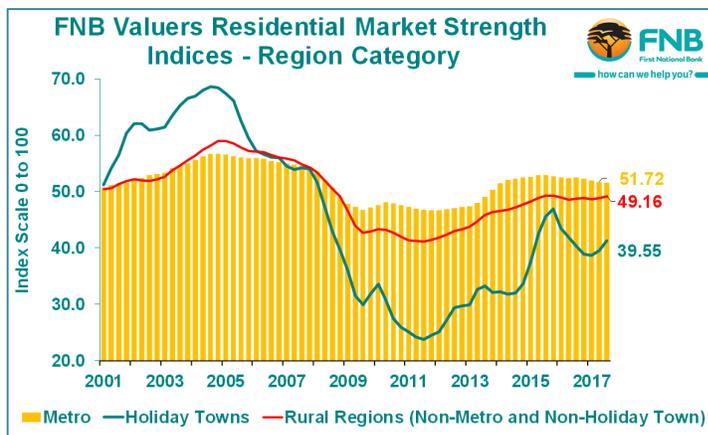
However, the loss of momentum of late is not as convincing when one looks at quarter-on-quarter house price growth for Holiday Towns, which actually stabilized in the 3rd quarter, rising by 1.08%, slightly faster than the prior quarter's 1.07%. This comes after a slowing quarter-on-quarter growth from the 2nd quarter of 2016 to the 2nd quarter of 2017.

Is there anything we can read into that 3rd quarter "stalling" in the quarter-on-quarter growth rate? Perhaps, if we read

it with what FNB's valuers have to say about holiday town markets.

HOW DO FNB'S VALUERS PERCEIVE HOLIDAY TOWN HOUSING MARKETS?

FNB's valuers have recently perceived some slight market strengthening in the Coastal Holiday Town markets, after prior weakening through 2016, which may hint at some "limits" to the slowing year-on-year price growth in holiday town markets in the near term.



The FNB Valuers Market Strength Index (MSI) for Coastal Holiday Towns (MSI notes on page 5) has underperformed that of Major Metros and Rural (Non-Metro/Non-Holiday Town) Regions noticeably since 2008, having outperformed significantly in the pre-2008 boom years.

From a 46.90 post-2008 high in the FNB Holiday Town MSI, reached in the final quarter of 2015, the valuers perceived a weakening in the holiday town markets to where the Holiday Town MSI reached

38.68 in the 1st quarter of 2017. This appears to explain the slowing price growth from a stage of last year. However, more recently, they have perceived a slight strengthening, this MSI rising to 39.55.

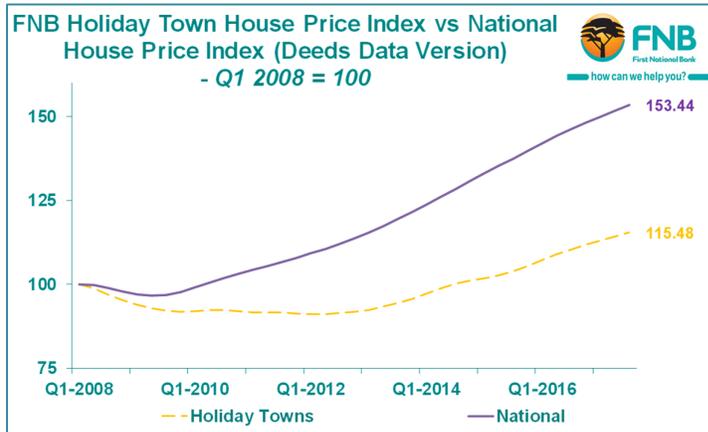
By comparison, the FNB Major Metro Valuers MSI remained significantly higher at 51.72 as at the 3rd quarter of 2017, and the Rural Regions MSI recorded 49.16.

While perceiving some recent quarterly improvement, therefore, the valuers' continue to perceive the holiday town markets' strength levels as being well-below the metros and rural regions, and this seems to suggest that holiday town house price growth will by-and-large continue to underperform those regions in the near term.

LONGER TERM RELATIVE PERFORMANCE OF HOLIDAY TOWN MARKETS

Around the 2003-2006 period, the FNB Holiday Town House Price Index far outperformed our FNB Deeds Data version of the National House Price Index, which is dominated by the major city markets.

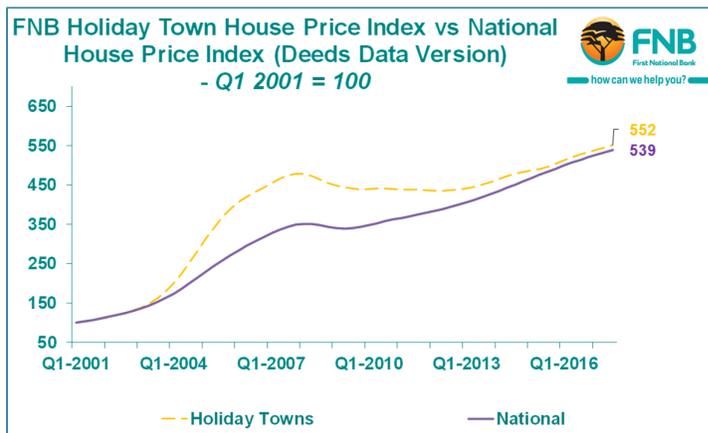
That period meant that, from the start of 2001 to the end of 2007 (when the property boom ended), the Holiday Town House Price Index grew cumulatively by 420.7, far outperforming the 249.2% cumulative growth in the National House Price Index. For most of that time, the FNB Valuers' Holiday Town MSI was stronger than the FNB Metro MSI, which ties in with the stronger holiday town house price growth pre-2008.



However, from the start of 2008 to the 3rd quarter of 2017, the relative pictures have been reversed. Holiday home buying since the boom years has been more on the backburner, and the holiday town prices deflated more significantly than the major cities during the 2008/9 recession period and for a while thereafter, after having "overheated" more significantly than the cities during the boom period.

The net result is that, whereas the national average cumulative house price growth rate is estimated at 53.44% from the 1st quarter of 2008 to the 3rd quarter of 2017, the FNB Holiday Towns House Price Index has only managed cumulative price growth of 15.48% over the same period. This also largely ties in with the FNB Valuers Holiday Town MSI underperforming that of the metros over this period.

The net result is that, whereas the national average cumulative house price



Putting it all together, i.e. the outperformance of holiday towns pre-2008 and the underperformance since, and we see a cumulative holiday town house price growth rate of 452% from the start of 2001 to the 3rd quarter of 2017. This is virtually the same as the cumulative growth of 439% in the National House Price Index.

CONCLUSION

Recently, the FNB Holiday Town Repeat Sales House Price Index has moved back to a mildly slower year-on-year growth rate than the FNB Long Term National House Price Index. Since the end of the pre-2008 housing boom, the Holiday Town House Price Index has mostly underperformed the National Index, which is to be expected in weak economic periods, and especially since holiday towns had far out-paced national house price growth prior to 2008, creating relative affordability challenges.

FNB's valuers have perceived a slight holiday town market strengthening in the past 2 quarters, following a weakening through 2016 to early-2017, and this together with quarter-on-quarter house price growth "stabilizing" in the 3rd quarter could suggest that the year-on-year holiday town house price slowdown may "stall" or "slow" in the near term.

But the FNB Valuers MSI for Holiday Towns remains well-below those of the Major Metros as well as the MSI for Rural Regions, suggesting that we should expect these Holiday Town regions to continue to underperform the national market in the near term.

JOHN LOOS:

HOUSEHOLD AND PROPERTY SECTOR STRATEGIST

MARKET ANALYTICS AND SCENARIO FORECASTING UNIT: FNB HOME LOANS

Tel: 087-328 0151

John.loos@fnb.co.za

The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by Firstrand Group Limited and / or the authors of the material.

First National Bank – a division of FirstRand Bank Limited. An Authorised Financial Services provider. Reg No. 1929/001225/06

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).

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.