

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

*The Lower End Area Value Bands still had the strongest average house price growth early in 2018, but there are signs that their outperformance relative to the higher priced areas may be starting to diminish*

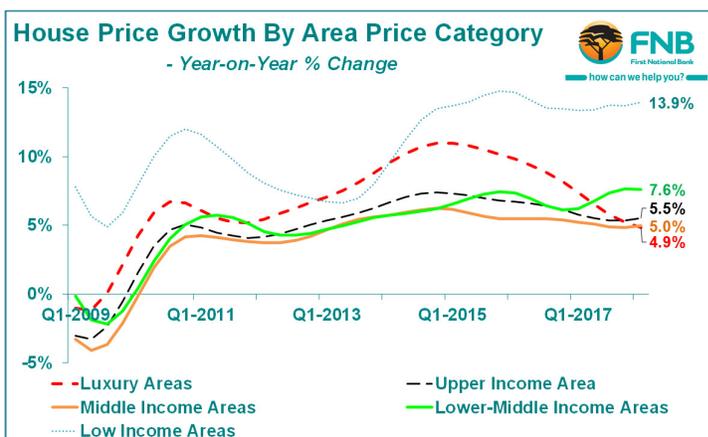
3 May 2018

### 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 = R2.358 million), the Upper Income Area House Price Index (Average Price = R1.251 million), the Middle Income Area House Price Index (Average Price = R895,089), the Lower Middle Income Area House Price Index (Average Price = R577,587), and the Low Income Area House Price Index (Average Price = R364,937)

The 1<sup>st</sup> quarter 2018 results show no strong pattern of slowing year-on-year house price growth in both the 2 high end segments any longer, nor do they show clear further strengthening in both the lower end segments.



The Low Income Area House Price Index was again the strongest performer in terms of year-on-year house price growth, recording 13.9% year-on-year for the 1<sup>st</sup> quarter. This is an acceleration on the prior quarter's revised 13.7%.

As always, however, we must caution, 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, and are often registered at a

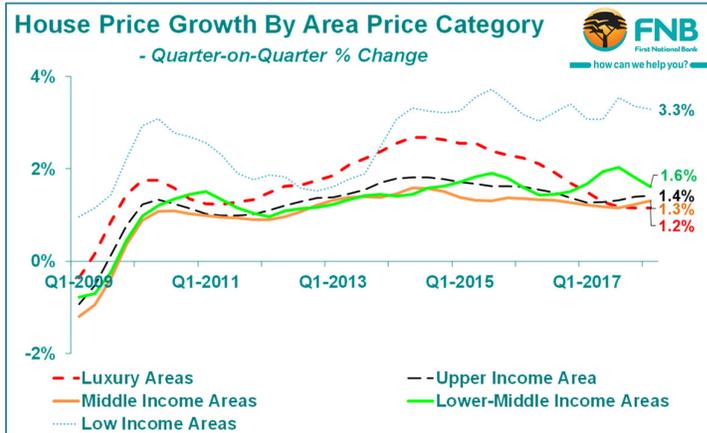
value with the deeds office which does not reflect any market value. Over the years, there have also been periodic sell-offs of rental stock by councils which have not necessarily taken place at market value. Such distortions mean that in a repeat sales index for Low Income Areas, many homes prices come 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 strength relative to the higher end, with the Lower-Middle Income Area Value Band's year-on-year house price growth of 7.6% being the 2<sup>nd</sup> strongest rate behind that of the Low Income Area Value Band. However, this 7.6% rate is very slightly lower than the prior quarter's 7.7%, suggesting that this segment may have been "peaking" recently after a relatively solid period.

In 2 of the 3 area value bands above this, year-on-year house price growth accelerated slightly in the 1<sup>st</sup> quarter of 2018, the Middle Income Area Value Band from 4.9% in the 4<sup>th</sup> quarter of 2017 to 5%, and the Upper Income Area Value Band from 5.4% to 5.5% over the same 2 quarters.

However, the Luxury Area Value Band continued its year-on-year growth slowdown, from 5.2% in the prior quarter, to record the weakest year-on-year growth of all 5 segments, a rate of 4.9%.

Therefore, off the highest growth base a few years ago, the Luxury Area Value Band's rate has slowed the most significantly of all 5 value bands since around 2014, to reach the slowest rate of all the segments by the 1<sup>st</sup> quarter of 2018.



However, the house price growth momentum at the higher end may be just starting to stabilize and even “turn the corner” towards some strengthening.

On a quarter-on-quarter basis, a better indicator of recent price growth momentum than the year-on-year calculation, we have seen a “near-levelling out in the growth rate of the Luxury Area Value band, slowing only very slightly from 1.16% in the previous quarter to 1.15% in the 1<sup>st</sup> quarter of 2018.

Meanwhile, the Upper Income Area House Price Index showed its 4<sup>th</sup> consecutive quarter of quarter-on-quarter growth acceleration, from 1.39% previous to 1.42% in the 1<sup>st</sup> quarter of 2018, while the Middle Income Area Value band saw a 3<sup>rd</sup> consecutive quarter of acceleration from 1.23% previous to 1.31% in the 1<sup>st</sup> quarter of this year.

By comparison, the 3 low end segments both showed stronger quarter-on-quarter price growth rates early in 2018 but both showed slowing rates of growth. The Lower Middle Income Area Value Band's quarter-on-quarter growth slowed from 1.81% previous to 1.61% in the 1<sup>st</sup> quarter, the 2<sup>nd</sup> consecutive quarter of slowing, while the Low Income Area House Price Index saw its rate slowing from 3.4% previous to 3.3%, also the 2<sup>nd</sup> consecutive quarter of slowing.

**This quarter-on-quarter price growth analysis, in short, still points to superior price growth performance at the lower-priced end of the market where average prices are well-below R1m, but suggests that the magnitude of lower end “outperformance” relative to higher end areas may diminish in the near term.**

## IN CONCLUSION

While the lower priced area value bands have remained the segments with the strongest average house price growth in the 1<sup>st</sup> quarter of 2018, the fact that their price indices are showing slowing quarter-on-quarter growth, while the Middle and Upper Income Area Value bands have started to see accelerating quarter-on-quarter growth momentum, suggests that the lower end “superiority” may be starting to fade.

Is this plausible? Possibly. At some point stronger house price growth in traditionally more affordable suburbs leads to their becoming less affordable, and their “value for money” attractiveness diminishing relative to more expensive suburbs. In addition, sentiment in South Africa early in 2018 seems improved, interest rates are declining mildly, and leading economic indicators have been pointing towards a strengthening economy. This could lead to that search for relative affordability of recent years, that benefited the lower end more, just diminishing in strength somewhat.

**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**

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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	Q2-2017	Q3-2017	Q4-2017	Q1-2018
<b>HOUSE PRICE INDICES BY AREA VALUE BAND</b>							
<b>Luxury Areas (Index Q1 2001 = 100)</b>	584.7	637.5	677.0	673.2	681.2	689.1	697.0
- year-on-year % change	10.6%	9.0%	6.2%	6.5%	5.8%	5.2%	4.9%
- quarter-on-quarter % change				1.3%	1.2%	1.2%	1.2%
<b>Upper Income Areas (Index Q1 2001 = 100)</b>	478.9	509.8	537.9	534.2	541.2	548.7	556.5
- year-on-year % change	7.1%	6.5%	5.5%	5.5%	5.3%	5.4%	5.5%
- quarter-on-quarter % change				1.3%	1.3%	1.4%	1.4%
<b>Middle Income Areas (Index Q1 2001 = 100)</b>	482.5	508.8	534.4	531.2	537.3	543.9	551.1
- year-on-year % change	5.8%	5.5%	5.0%	5.1%	4.9%	4.9%	5.0%
- quarter-on-quarter % change				1.2%	1.2%	1.2%	1.3%
<b>Lower-Middle Income Areas (Index Q1 2001 = 100)</b>	563.3	601.0	643.0	636.6	649.5	661.3	672.0
- year-on-year % change	7.0%	6.7%	7.0%	6.7%	7.3%	7.7%	7.6%
- quarter-on-quarter % change				1.9%	2.0%	1.8%	1.6%
<b>Low Income Areas (Index Q1 2001 = 100)</b>	748.7	852.9	968.4	950.4	984.1	1 017.0	1 050.5
- year-on-year % change	14.2%	13.9%	13.5%	13.4%	13.7%	13.7%	13.9%
- quarter-on-quarter % change				3.1%	3.5%	3.4%	3.3%