

PROPERTY BAROMETER – FNB Area Value Band House Price Indices

The 3 Middle-to-Lower End Area Value Bands showed some house price growth acceleration in the 2nd quarter of 2018, while the Higher End Areas remained on a slowing growth path, all a reflection of a search for relative affordability amidst economic stagnation and rising living costs.

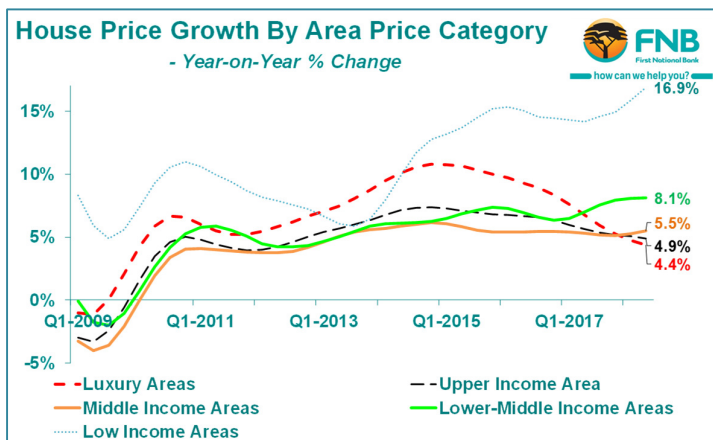
7 August 2018

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 = R2.354 million), the Upper Income Area House Price Index (Average Price = R1.273 million), the Middle Income Area House Price Index (Average Price = R895,168), the Lower Middle Income Area House Price Index (Average Price = R590,309), and the Low Income Area House Price Index (Average Price = R362,579)

The 2nd quarter 2018 results showed further slowing in year-on-year house price growth in both the 2 high end segments, but some further strengthening in the 3 middle-to-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 16.9% for the 2nd quarter. This is an acceleration on the prior quarter's revised 15.8%.

As always, however, we must caution, about major potential distortions in this index. This index includes the social housing component, and new homes in this category 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, viewing it only for its price growth trends but not for price growth magnitudes.

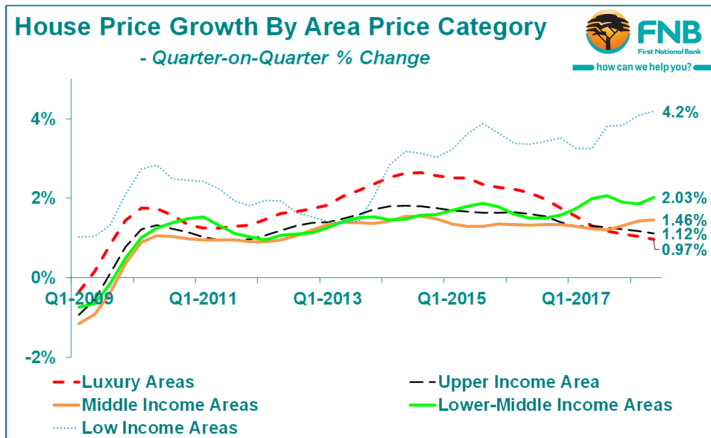
Moving 1 value band up, however, to what we believe to be a segment whose data is relatively free of the abovementioned distortions, we see support for the view that the lower end has in recent times been stronger than the higher end, with the Lower-Middle Income Area Value Band's year-on-year house price growth of 8.1% being the 2nd strongest rate behind that of the Low Income Area Value Band. This rate represents a slight further strengthening on the prior quarter's revised 8.0% growth rate, and is noticeably faster than a 6.3% rate recorded at the end of 2016.

The next band higher, i.e. the Middle Income Area Value Band, also showed a year-on-year growth acceleration to 5.5%, from 5.3% in the previous quarter.

However, the 2 higher area value bands continued to show slowing year-on-year growth, as well as being the 2 segments with the slowest year-on-year growth.

The growth in the Upper Income Area value band slowed from 5.3% year-on-year in the 1st quarter to 4.9% in the 2nd quarter, while the weakest segment, the Luxury Area Value Band, saw its growth slow from 4.7% year-on-year to 4.4%.

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 2nd quarter of 2018.



Examining quarter-on-quarter house price growth, a better indicator of very recent growth momentum than the year-on-year rate, we see a similar relative picture for the segments as at the 2nd quarter of 2018.

The Luxury Area Value Band’s quarter-on-quarter growth slowed slightly from 1.05% in the 1st quarter of 2018 to 0.97% in the 2nd quarter, while the Upper Income Area Value Band slowed from 1.17% to 1.12% over the same 2 quarters.

By comparison, the Middle Income Area Value Band saw acceleration from 1.42% to 1.46%, the Lower-Middle Income Area Value Band from 1.86% to 2.03% and the Low Income Area Value Band from 4.08% to 4.18% from the 1st to the 2nd quarter of this year.

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, with the Higher End Areas still slowing.

IN CONCLUSION

2nd quarter data updates appear to suggest that the Luxury and Upper Income Area Value Bands are still “depressed” relative to the 3 lower segments whose average price is below R1m.

In these weak economic times, with Real GDP (Gross Domestic Product) growth of a mere 0.75% in the 1st quarter of 2018, we would expect a financially constrained Household Sector to continue to search for relative affordability in greater numbers, which plays into the hands of the lower end of the market.

Not only is the stagnant economy constraining Real Disposable Income growth, but an ongoing variety of tax rate increases lift the cost of living too. These include ongoing personal tax increases, which are structured to impact more heavily on higher income groups, and a 2018 VAT increase. Municipal rates and utilities tariffs continue to increase at above CPI inflation, raising home operating costs and making especially the larger and more expensive homes significantly more costly to own and run.

And then there is the recent series of fuel levy increases, which impact more heavily on the private transport-dependent higher income groups. Indeed, of late it is the higher income/expenditure groups whose CPI inflation rates are the highest.

A broad shift in a portion of demand towards more affordable areas, and smaller and more affordable homes whose running costs are lower, should thus be expected in these times of multi-year economic stagnation along with a rising cost of living.

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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.

AVERAGE HOUSE PRICE INDEX BY AREA VALUE BAND

| | 2015 | 2016 | 2017 | Q3-2017 | Q4-2017 | Q1-2018 | Q2-2018 |
|--|-------|-------|-------|---------|---------|---------|---------|
| HOUSE PRICE INDICES BY AREA VALUE BAND | | | | | | | |
| Luxury Areas (Index Q1 2001 = 100) | 583.7 | 636.5 | 677.0 | 681.2 | 688.8 | 696.0 | 702.7 |
| - year-on-year % change | 10.4% | 9.0% | 6.4% | 5.9% | 5.2% | 4.7% | 4.4% |
| - quarter-on-quarter % change | | | | 1.2% | 1.1% | 1.0% | 1.0% |
| Upper Income Areas (Index Q1 2001 = 100) | 477.0 | 508.4 | 536.5 | 539.9 | 546.5 | 552.9 | 559.1 |
| - year-on-year % change | 7.0% | 6.6% | 5.5% | 5.4% | 5.2% | 5.1% | 4.9% |
| - quarter-on-quarter % change | | | | 1.3% | 1.2% | 1.2% | 1.1% |
| Middle Income Areas (Index Q1 2001 = 100) | 482.2 | 508.3 | 535.0 | 538.0 | 545.1 | 552.8 | 560.9 |
| - year-on-year % change | 5.7% | 5.4% | 5.2% | 5.2% | 5.1% | 5.3% | 5.5% |
| - quarter-on-quarter % change | | | | 1.2% | 1.3% | 1.4% | 1.5% |
| Lower-Middle Income Areas (Index Q1 2001 = 100) | 565.2 | 603.4 | 647.1 | 653.7 | 666.1 | 678.5 | 692.3 |
| - year-on-year % change | 7.0% | 6.8% | 7.2% | 7.6% | 7.9% | 8.0% | 8.1% |
| - quarter-on-quarter % change | | | | 2.1% | 1.9% | 1.9% | 2.0% |
| Low Income Areas (Index Q1 2001 = 100) | 726.6 | 834.3 | 955.1 | 970.9 | 1 008.1 | 1 049.3 | 1 093.2 |
| - year-on-year % change | 14.2% | 14.8% | 14.5% | 14.6% | 14.9% | 15.8% | 16.9% |
| - quarter-on-quarter % change | | | | 3.8% | 3.8% | 4.1% | 4.2% |