



15 July 2015

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PROPERTY BAROMETER

Residential Price Performance by Home Size

Has the “large” home had its day? Not entirely, but price trends reflect an outdated composition of property stock, with a relative under-supply of small-to-medium size homes

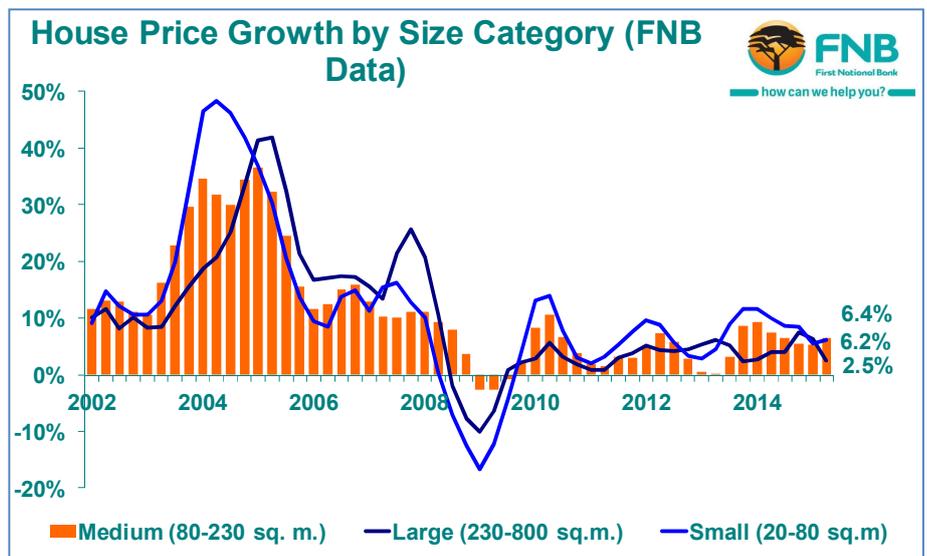
2ND QUARTER HOUSE PRICE GROWTH BY SIZE CATEGORY

The relative house price inflation performances reflect an outdated composition of residential property stock, with relatively too many large homes and too few small to medium sized homes.

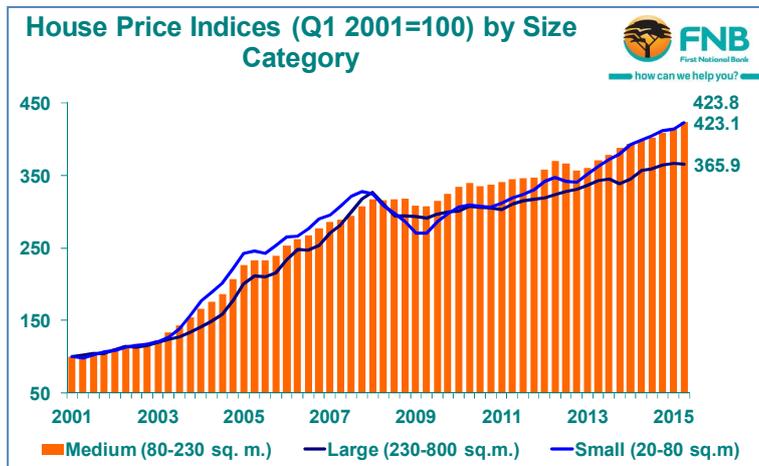
The inappropriate size composition in residential property stock exists despite a broad trend towards building smaller sized units with smaller average stand sizes that started as far back as the late-1970s, around the time that economic infrastructure investment plummeted and urban land scarcity started to increase noticeably.

Given that the house and its running costs is usually the lion’s share of overall household costs, with households experiencing financial limitations in a slow economy it should be unsurprising to see relatively stronger demand for smaller and medium sized houses, with large-size demand being the weak link.

Indeed, this is what appears to come out in examining relative price inflation performances of property categories according to home size. Of the 3 size categories, the 20-80 square metre “Small Sized” category showed year-on-year price growth of +6.2% in the 2nd quarter of 2015. This rate is slightly slower than the +6.4% rate for the 80-230 square metre “Medium Size” category, but nevertheless very similar. The 230-800 square metre “Large Size” category, by comparison, is the “odd man out”, having seen significantly slower price growth of 2.5%, relative to the other 2 segments.



The underperformance of the Large-Sized segment has been a longer term phenomenon, and became more noticeable after the 2008/9 recession.



From the 1st quarter of 2001, the Large Home Index has risen cumulatively by 265.9%, compared to the Medium Size category's 323.1% and the Small Sized category's 323.8%. Since the 2nd quarter of 2009, a relative price low point just after the recession, the Large Sized Home Index has risen in total by 25.7% compared to a significantly bigger 37.9% rise in the Medium category and 56.1% for the Small Sized category.

The list of reasons for the underperformance of large sized homes is potentially a lengthy one. Since the late-1970s, urban sprawl has been constrained by significantly slower economic infrastructure investment. This, along with ongoing urbanisation, has led to increasing land scarcity, resulting in a long term trend towards smaller stand sizes and smaller building sizes. In addition, the average size of the South African household has declined over the years as fertility rates have declined, causing declining need for the 4 bedroom+ homes over time.

But the recent relative underperformance of the large sized homes may have been helped on by sharply rising home operating costs. At top of mind is security costs associated with high crime rates, playing into the hands of smaller sized units often in secure clusters. Then there is the matter of sharply rising municipal rates and tariffs, especially in the area of electricity which was rising at around 30% year-on-year at the beginning of 2009, and carried on with sharp double digit hikes for a good few years thereafter.

These home running related cost increases, at a time when the economy is weak and the household sector is financially "constrained" in general, have arguably lifted the popularity of smaller sized homes, and the relative price inflation performances of size segments in recent years is therefore not surprising

Is this the end of the road for large-sized homes? No, but we believe that the composition of the country's housing stock is outdated, and that "large-sized" homes need to decline as a percentage of total housing stock.

Whereas South Africa's Middle Class could often afford to live in large spacious homes, the future is probably one where these large sizes increasingly become the domain of the wealthy, with far higher density living the future for the "Middle Class". Until such time as the composition of the housing stock has adjusted to reflect these changed cost and demand patterns, a long term process, we would expect the large-sized home segment to underperform the Middle and Smaller Sized homes, in terms of house price inflation, for the most part during the coming years.

NOTES:

Note on The FNB Average House Price Indices by Size: Unlike the FNB National House Price Index, which is made up of sub-segments which are assigned a fixed weighting in the overall index based on transaction volume share, the FNB House Price Indices are simple average price indices.

The 3 size categories are the "Small Sized Segment, including homes from 20-80 square metres in size, the "Medium Size Segment", including homes from 80-230 square metres in size, and the "Large Sized" Segment, including homes from 230-800 square metres in size.