

## PROPERTY BAROMETER – HOLIDAY TOWNS UPDATE

*Some more mild price decline in the FNB Holiday Towns House Price Index, as Major Metro prices all but wipe out their lag built up since early last decade*

12 November 2013

### HOLIDAY TOWN PRICE INDEX DECLINE PERHAPS NOT OVER JUST YET

Being non-essential in nature, holiday property buying tends to be more cyclical than primary residential demand, implying that certain smaller town residential markets strongly driven by holiday property demand should generally be more cyclical than major cities which are overwhelmingly driven by primary residential demand.

The state of holiday town residential markets can thus be one important indicator of the financial strength of the higher income household sector, as well as being a reflection of the general popularity of the residential property asset class (popularity being important in driving luxury demand).

And so, in these times of ongoing financial constraints on the household sector, and when property as an asset class is perhaps not the “flavor of the month”, it remains unsurprising to see the FNB Holiday Town House Price Index for the 3<sup>rd</sup> Quarter of 2013 continue to underperform our more primary residential demand-driven Major Metro House Price Index.

In previous readings of the Holiday Town House Price Index, we had thought that this market segment had returned to “nominal price stability” at least, but the 3<sup>rd</sup> quarter datapoint once again shows some year-on-year decline to the tune of -3%.

This continues to reflect holiday home buying being on the backburner relative to primary residential demand, in line with household sector financial constraints.

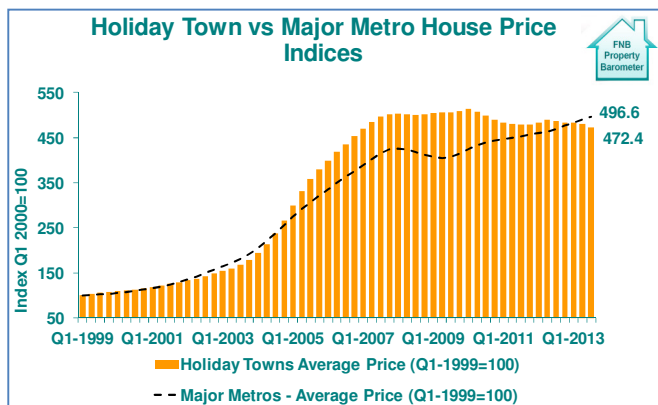
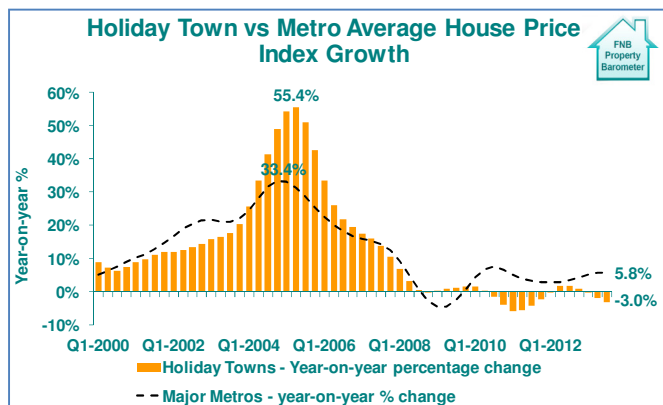
By comparison, our house price index for the 6 major metros showed +5.8% year-on-year growth in the 3<sup>rd</sup> Quarter of 2013, also not setting the world alight, but in significantly better shape than the Holiday Town markets it would appear.

In real terms (again adjusting for consumer price inflation), the estimated “downward correction” in the Holiday Town price levels, since the peak of real prices as at the 4<sup>th</sup> quarter of 2007, has been a cumulative -28.9%. By comparison, the drop in real prices in the Major Metro House Price Index has been a lesser -14.0%.

However, to get the longer term perspective regarding relative price levels of the 2 markets, we need to look back to the pre-boom years of the late-1990s, as it was the holiday town markets that rose more strongly back in the boom times than did the major metro markets.

Therefore, examining price movements since pre-boom days, it appears that, cumulatively, using the beginning of 1999 as a base for evaluation, nominal major metro price levels have just recently managed to catch up to holiday town price levels.

According to our estimates, since the 1<sup>st</sup> quarter of 1999 (when interest rates had just started to fall rapidly from a 1998 prime rate peak of 25.5%, which precipitated the start of the house price boom), the Major Metro House Price Index has grown by a cumulative 396.6%, as opposed to the Holiday Town House Price Index’s mildly lower 372.4%.



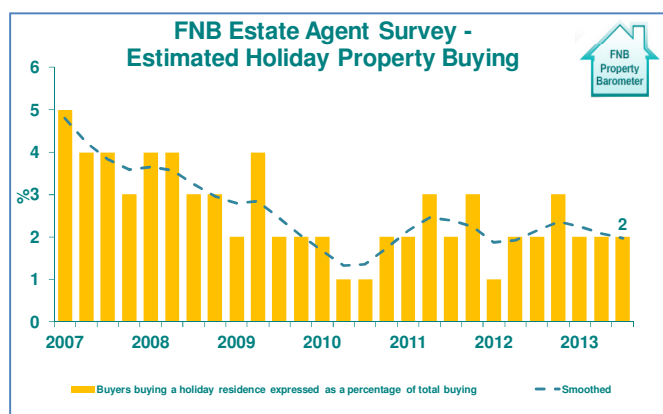
## **PRIMARY RESIDENTIAL MARKETS STILL EXPECTED TO OUTPERFORM**

*Despite the boom period price performance gap between holiday towns and major metros seemingly having been wiped out, our expectation remains that major city markets will continue to outperform holiday markets for the foreseeable future.*

Our FNB Estate Agent Survey continues to point to holiday home buying being moderate, and primary residential demand being “king”. Whereas in early-2007, holiday home buying was estimated to be around 5% of total home buying, the most recent survey in the 3<sup>rd</sup> quarter of 2013 shows a 2% estimate.

By comparison, primary residential buying remained high at an estimated 90% of total home buying, still well-higher than the 80% estimated for early-2007.

*\*Note: The House Price Indices quoted in this report have been estimated using Deeds data transactions by individuals. Also note that the Holiday Town House Price Index reflects all property transactions by individuals those areas, not just transactions for holiday purposes.*



Our expectations for holiday home buying to be more constrained than primary residential buying are not only about current household sector financial constraints, including high levels of indebtedness. It is also about the ongoing cost increases relating to owning and running a home, notably in the form of strongly rising municipal rates and utilities tariffs.

Such running cost affordability deteriorations should be expected to impact more negatively on non-essential property buying than on primary residential buying, thus **relatively** benefiting primary residential demand-driven markets such as the major cities.

**JOHN LOOS:**  
**HOUSEHOLD AND PROPERTY SECTOR STRATEGIST**  
**011-649 0125**  
**[John.loos@fnb.co.za](mailto: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.*