PROPERTY BAROMETER – AREA VALUE BANDS

Lower end areas still outperform the upper end of the market in terms of house price growth, but the margin is not large

28 January 2014

LOWER END STILL OUTPERFORMS THE HIGHER END IN TERMS OF PRICE GROWTH

Our most recent FNB Estate Agent Survey continued to point to market fundamentals still being strongest towards the Middle-to-Lower Income end of the residential market, although it suggested late in 2013 that the higher end had been closing the gap..

This relative performance difference was still broadly reflected in our calculations of house price growth by "area value band" as at the 4th quarter of 2014.

Using Deeds data relating to transactions by individuals, we group areas into 4 "Major Metro Region Area Value Bands" according to the longer term average prices of these areas.

The 4 area value bands are the "Upper Income Area" value band, with a 4th quarter average price of R2.05 million, the "Middle Income Area" value band, with average value of R1.221 million, the "Lower-Middle Income Area" value band, with average value of R804,429, and the "Low Income Area" value band, with average value of R422,183.

On a year-on-year growth basis, all 4 value bands continue to move in a relatively narrow range.

As at the 4th quarter, the Lower-Middle Income Area Value Band showed the highest price growth of 7.8%. This is slightly higher than the Low Income Areas with their average price growth of 6.2%, as well as higher than Middle Income Areas with 5.6%, and the Upper Income Areas with 4.3%.

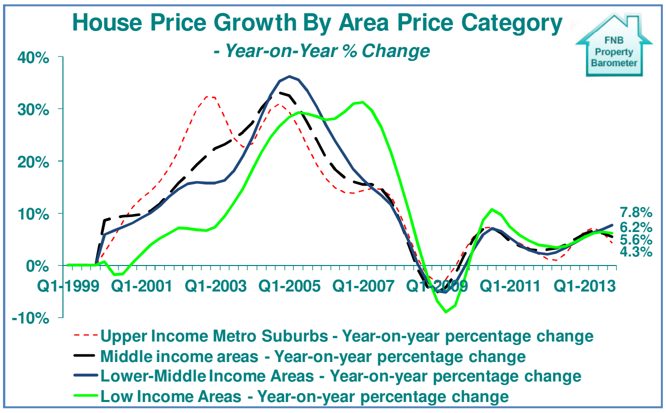
That the Lower-Middle Income Area Price Index overtook the Low Income Area Index by a small margin may hint at some positive impact from a significant percentage of selling in order to upgrade properties coming from lower down the price ladder.

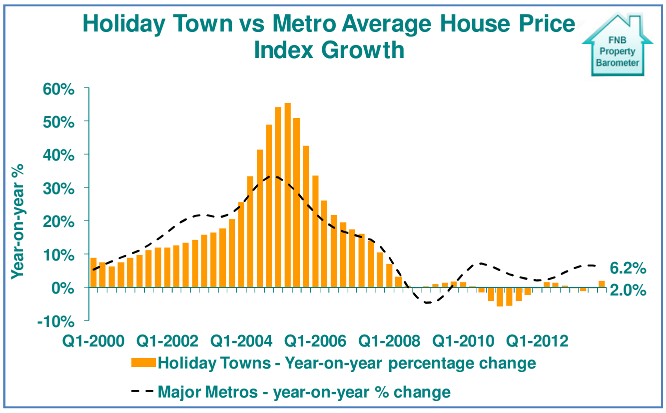
The FNB Estate Agent Survey has been pointing to rising "upgrade-related selling", especially from the lower end down below R1m in price. This is believed to be driving a "sweet spot" in the market segment just above R1m, although our price indices don't yet reflect the positive impact in that segment just yet. However, it may be still to come, with the Lower-Middle Income Area segment leading the way first..

Be that as it may, for the time being the relative performances of the area value band price indices still largely reflect the slightly better performance of the lower priced end, driven by affordability considerations in what has for some years been a financially constrained environment.

The financially constrained environment of recent years also continues to be reflected in the relative performances of the FNB Holiday Towns House Price Index and our Major Metro Region House Price Index too. While neither is setting the world alight, the 6.2% year-on-year price growth in the Major Metro Index remains noticeably higher than the 2% growth for the Holiday Towns.

Nevertheless, the 2% price growth in the Holiday Towns Index does represent a return to positive nominal price growth, at least, after 3 prior quarters of





mild decline. This may be a hint of some improvement in demand for holiday property as we go into 2014, although it would be a bit early to draw such conclusions.

Other FNB data, in the form of the Estate Agent Survey, does suggest an increasing move of the home owner/buyer population towards "greater luxury" or "non-essentials". By this we mean the survey response indicating that sellers selling in order to upgrade their properties has hit a new high estimate of 20% of total home selling, the highest percentage estimate since we started this survey question late in 2007.

This could lead to Middle and Upper Income Area house prices showing a mild acceleration in growth in the near term numbers too, and the same possibly for the Holiday Towns Index.

However, we would not expect too much in terms of the high end and holiday markets, as much depends on the economy and drivers of inflation such as the rand, and interest rates. Recent rand weakness has indeed increased speculation of interest rate hiking possibly later this year, not to mention denting sentiment.

This environment is expected to keep the more luxurious segments of the property market underperforming the lower priced end, despite some possible narrowing of the performance gap between the segments.

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