

PROPERTY BAROMETER – HOLIDAY TOWN PRICE TRENDS

Holiday town house price inflation remains reasonably solid, but further signs of slowing house price growth in these regions as a group emerged in the 2nd Quarter of 2015, as one would expect in tougher economic times

18 August 2015

HOLIDAY TOWN HOUSE PRICE INFLATION TAPERS FURTHER IN THE 2ND QUARTER

After some resurgence, off a low base, through 2013/2014, the FNB Holiday Towns House Price Index has more recently shown signs of a loss in growth momentum. This index is compiled from transaction data for towns deemed to be “strongly holiday property-driven”.

In the 2nd quarter of 2015, the index showed quarter-on-quarter growth of 1.9%, down for the 4th consecutive quarter from a high of 3.2% reached in the 2nd quarter of 2014.

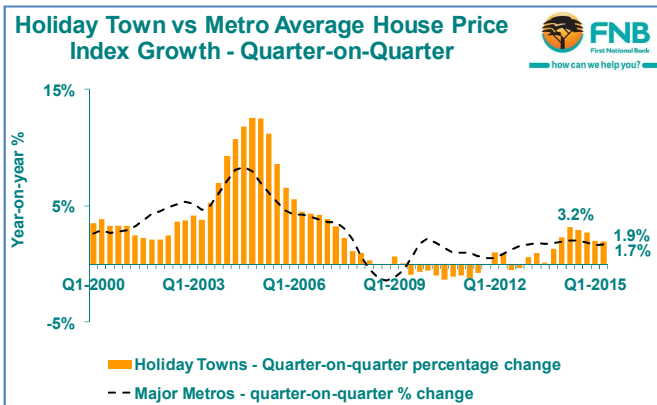
A RECENT HISTORY OF HOLIDAY TOWN PERFORMANCE

Prior to 2014, holiday towns had lagged the Major Metro Residential Regions for most of the period from 2010 to 2013, showing house price deflation over a significant part of that period.

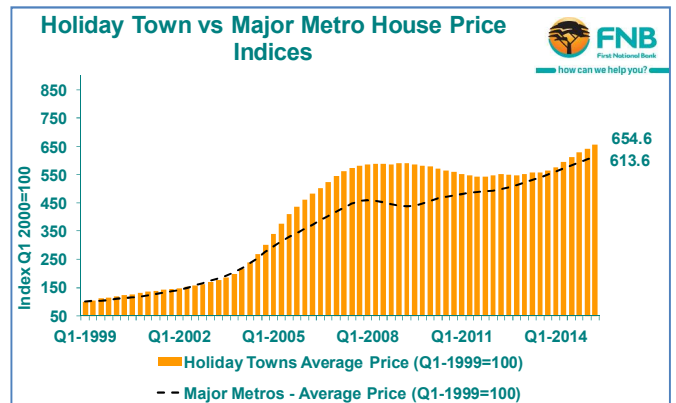
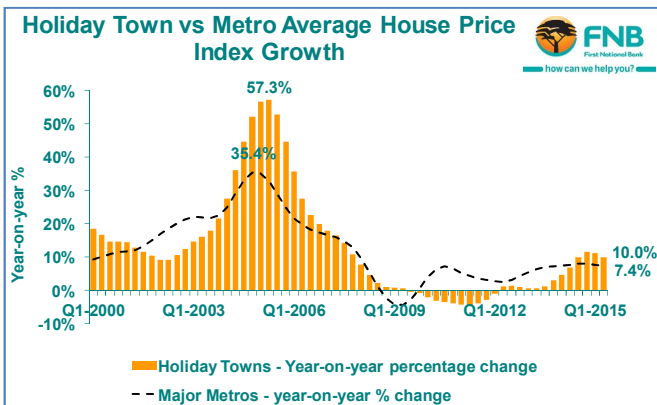
This was explained by a financially-constrained and highly indebted household sector following the 2008/9 recession, and it was understandable that primary residential demand-driven metros would perform better than holiday markets that were strongly driven by non-essential holiday property buying.

By 2014, however, financial pressures had eased after some years of low interest rates, and the holiday town market began to make a noticeable “comeback”. Its prior price deflation and very low inflation over the 2010 to 2013 period had also driven a significant holiday town residential affordability improvement.

Creating a Major Metro House Price Index and a Holiday Town Index with 1999 = 100 in both, one can see how the gap between the 2 that had been built up during the boom years (when holiday town inflation was far stronger at a stage) was all but wiped out by early-2014. Recently, in a relatively good property period, the gap started to widen slightly once more, with holiday town prices inflating slightly more than the Major Metros. But this is not expected to last for very long as economic times toughen.

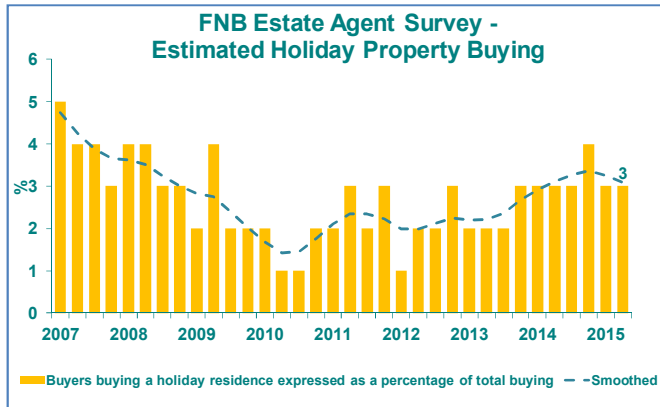


This has begun to translate into slower growth in the still-high year-on-year rate, from 11.6% in the final quarter of 2014 to 10% in the 2nd quarter of 2015.



We witnessed a similar 2014 improvement in the FNB Estate Agent Survey, where the estimated percentage of home buyers believed to be holiday home buyers “elevated broadly from early-2014 to hover at around 3%, after prior years of being more around 2-3%.

Since then, however, we have not seen any further increase in this percentage, which appears to tie in with tapering house price growth.



OUTLOOK

We expect the gradual slowing in house price growth in the Holiday Town markets to continue in the near term.

This ties in with various other of our market indicators which point to a more conservative home buying approach emerging in a deteriorating economic environment. This includes less “non-essential” activities such as upgrading to better primary homes, and we would expect that buying of 2nd holiday homes may also once again take more of a back seat.

Given the non-essential nature of holiday home buying, and thus the more cyclical nature of holiday home-driven residential markets, we continue to expect that in this rising interest rate and low economic growth environment, the price growth in our FNB Holiday Town House Price Index will drop back to lower single digit rates below that of the Major Metro Regions in the not too distant future.

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

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.

First National Bank – a division of FirstRand Bank Limited. An Authorised Financial Services provider. Reg No. 1929/001225/06