PROPERTY BAROMETER – AREA VALUE BANDS

In the 6 major metro regions, the Upper Income Areas continued to show the most noticeable slowing in house price growth, admittedly off the highest base.

27 October 2015

UPPER INCOME AREA SEGMENT SHOWS THE MOST NOTICEABLE SLOWING IN HOUSE PRICE INFLATION

Our September FNB National House Price Index showed some renewed year-on-year growth acceleration, following a prior slowing trend, suggesting that the days of a well-balanced residential market are not quite over yet.

It is important to bear in mind that our National House Price Index is compiled from our own FNB data, which is more up to date than Deeds Data, while out FNB Area Value Band House Price Indices utilize the more "dated" Deeds data. So as at the 3rd quarter of 2015, the Area Value Band Indices had not seen any slight renewed rise in growth yet.

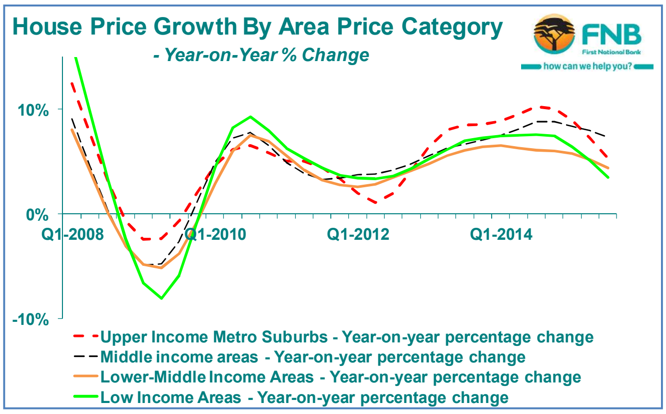
The Area Value Band Indices are nevertheless insightful in providing an idea of the relative performances across areas grouped by the average price levels of areas in the 6 major metros of South Africa (Tshwane, Joburg, Ekurhuleni, Ethekwini, Nelason Mandela Bay and Cape Town)

And the relative performances seem to point to the high end of the market slowing the most noticeably, which in turn seems to be broadly in line with what the survey respondents in the FNB Estate Agent Survey have been telling us too. In that survey, what agents term the "High Net Worth" Area Segment has shown the most noticeable softening in reported activity levels in recent quarters, so it would be unsurprising to have witnessed the most noticeable softening in average house price growth on the high end of the market too.

Using Deeds data transactions by individuals, we compile our 4 FNB House Price Indices by Major Metro Area Value Band, namely Upper Income Areas (Average house price = R2.67m), Middle Income Areas (Average Price=R1.46m), Lower Middle Income Areas (Average Price = R879,469) and Low Income Areas (Average Price = R461,072).

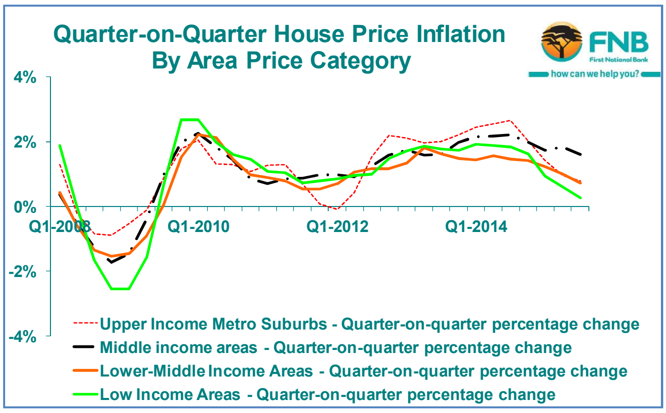
On a year-on-year basis, we see that the Upper Income Area Segment's average house price growth has slowed from 10.2% back in the 3rd quarter of 2014 to 5.3% by the 3rd quarter of 2015. Through 2013 to early-2015, this segment had the highest price growth of all 4 segments, as the high end played "catch up" to the lower priced segments. But from the highest base, this segment has showed the most noticeable slowing in growth through 2015 to date, although still experiencing mildly stronger year-on-year price inflation than the Lower Middle Income and Low Income Areas Value Bands.

By comparison, the Lower Middle Income Area Segment inflated by 4.4% year-on-year, and the Low Income Area Segment by 3.5%, while the Middle Income Area Index showed the strongest average price growth of 7.3%. All 4 segments were showing slowing year-on-year price growth rates as at the 3rd quarter though.



On a quarter-on-quarter basis, a better indicator of very recent growth momentum, the price growth slowing of the Upper Income areas has been just as noticeable, from 2.7% in the 3rd quarter of 2014 to 0.8% in the 3rd quarter of 2015.

On a quarter-on-quarter basis, the Middle Income Area price growth is also the strongest, but all 4 segments lost further growth momentum in the 3rd quarter.



Where too from here? *As mentioned previously, our more current monthly FNB National House Price Index points to some renewed year-on-year price growth acceleration as we headed towards the final quarter of 2015, which may mean that one or more of these quarterly Area Value Band Indices there may be some mild "upside" in growth in the near term, although we remain expectant of a broad price growth slowdown looking past the very near term.*

In addition, our FNB Estate Agent Survey has in recent quarters pointed to strong activity around their equivalent of our "Lower Middle Income" Area segment.

This information lead us to believe that the slight recovery in the FNB National House Price Index may be driven by the Lower Middle Income Area segment, and that we may see this segment's Price Index holding up a little better in the near term.

With regard to the Upper Income Area Value Band, however, we remain of the belief that it will begin to "underperform" the other 3 segments in the near term. This is because of our view that economic growth will continue on its broad multi-year slowing, and that this will shift a portion of residential demand down towards the Middle and Lower Middle Income Areas.

However, the experience of the 2008/9 recession suggests that, while the Lower Middle Income Areas may begin to perform relatively better in the very near term, ultimately, should the economy proceed into recession, the financial pressure will become greater on low income households. The average house price deflation was thus most significant in the Low Income Area Value Band back in 2008/9 according to our price measures.

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