PROPERTY BAROMETER – AREA VALUE BANDS

In the 6 major metro regions, the Upper Income Areas appear to be showing the most noticeable slowing in house price growth, although the slowing comes off a high base.

17 August 2015

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

We have been pointing to broadly slower average house price growth in the FNB National House Price Index since a high reached around early-2014. This, we believe, had to come, given a multi-year deterioration in economic performance from 2012 onward, as temporary (and unsustainable) monetary and fiscal stimulus measures wear off and a myriad of structural constraints remain unaddressed.

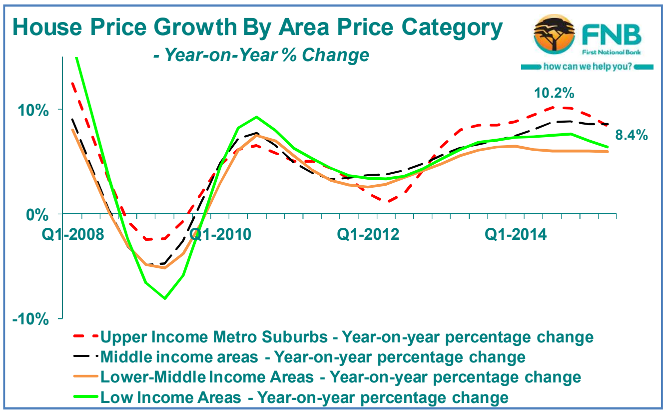
The deteriorating economic performance brings about a Household Sector which is more financially constrained and noticeably less confident, if the dramatic recent drop in the FNB-BER Consumer Confidence Index is anything to go by. The natural result should a more conservative buying pattern when it comes to residential property, and this should have more of a dampening impact on the more luxurious end of the residential market.

Indeed, we have already seen this to be the case in recent FNB Estate Agent Surveys where the "High Net Worth" Area Segment has shown a noticeable recent softening in reported activity levels, and we have started to see such softening in average house price growth on the high end of the market too.

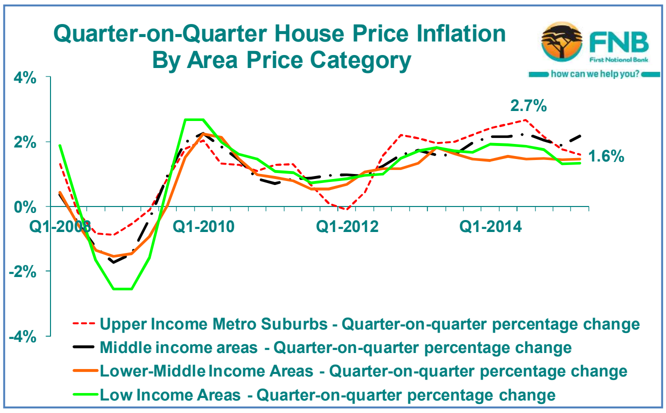
Using Deeds data transactions by individuals, we compile our 4 FNB House Price Indices by Major Metro Area Value Band, namely Upper Income Areas (Average house price = R2.675m), Middle Income Areas (Average Price=R1.443m), Lower Middle Income Areas (Average Price = R878,835) and Low Income Areas (Average Price = R464,950).

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 8.4% by the 2nd 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 in the 2nd quarter of 2015, although the Upper Income Area price inflation was still estimated to be on the high side of the 4 value bands' spectrum, it had slowed the most noticeably of the four, and had moved to slightly below the 8.6% recorded for the Middle Income Segment.

By comparison, the Lower Middle Income Area Segment inflated by 5.9% year-on-year, and the Low Income Area Segment by 6.4%, but we suspect that their price inflation rates may not remain below those of the Middle and Upper Income Area segments for too much longer.



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 1.6% in the 2nd quarter of 2015.

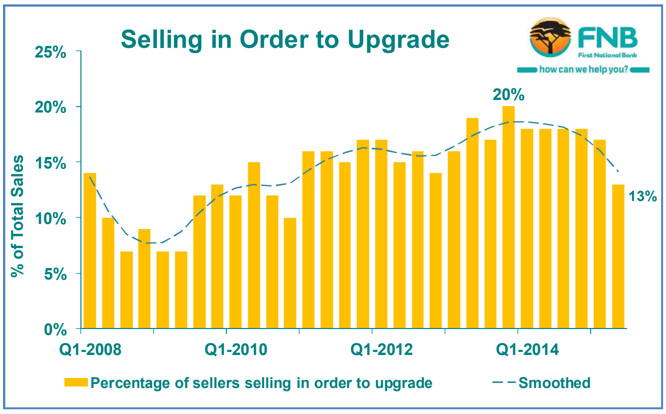


By comparison, the other 3 segments' broad house price growth slowdowns appeared to have stalled in the 2nd quarter, the Lower Income and Lower Middle Income quarter on quarter growth moving more or less sideways, while the Middle Income Segment's accelerated slightly.

We expect that this "stalling" will be short lived, and that some of the lower end segments will see slowing price growth too. However, such slowing is expected to be less significant than the Upper Income end, and we anticipate the Upper Income Metro Suburbs soon to "underperform" the more affordable areas.

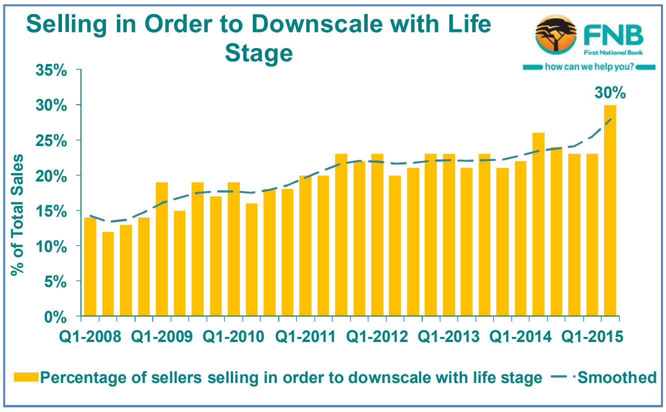
The noticeable slowing in average house price inflation in the Upper Income Areas Segment appears to be explained in certain of our other indicators, as more households shift towards a more conservative financial approach.

Toughening economic times and rising interest rates have co-incided with the FNB Estate Agent Survey pointing to a noticeable decline in the percentage of sellers selling in order to upgrade. This decline works, relatively speaking, against the higher end, with a smaller portion of households upgrading into those "more illustrious" areas.



Simultaneously, the rising trend in the percentage of sellers selling in order to downscale due to "life stage" continues. This appears to be the biggest reason for selling property, and has reached an estimated 30% of total sellers by the 2nd quarter of 2015, according to the FNB Estate Agent Survey.

This, too, works relatively speaking against the highly priced end of the market and in favour of more affordable property areas.



In short, therefore, tougher economic times, rising interest rates, and weaker household confidence are expected to lead to a more conservative financial approach by the Household Sector. This is expected to lead to slower house price inflation in general. But when we examine the relative performances of areas according to value band, we would expect the more affordable end of the residential market to begin to outperform the higher priced end.

The FNB House Price Indices by Area Value Band suggest that this relative shift in performances may be starting to happen, with the Upper Income Area Segment showing the most noticeable house price inflation slowing of late.

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