PROPERTY BAROMETER – HOLIDAY TOWNS

Price stability appears to have returned to holiday town residential markets after a significant prior decline, but these markets still underperform the primary residence-drive metros.

5 August 2013

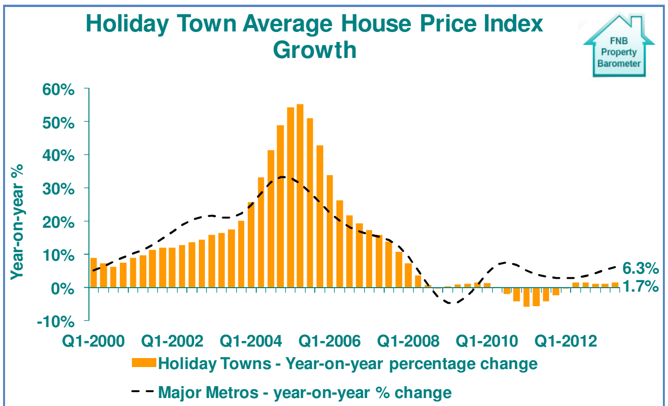
PRICE STABILITY IN HOLIDAY MARKETS, BUT NO FIREWORKS

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).

Therefore, not surprisingly, the FNB Holiday Town House Price Index for the 2nd Quarter of 2013 continues to point to "nominal price stabilization at best". It still reflects holiday home buying being on the backburner relative to primary residential demand, with the household sector still experiencing significant financial constraints.

So, whereas our house price index for the 6 major metros showed 6.3% year-on-year growth in the 2nd Quarter of 2013, the Holiday Town House Price Index was ticking long at a more pedestrian 1.7%. This rate is up from the previous quarter's 1.1%, reflecting some nominal improvement, but in real terms, adjusted for consumer price inflation, it still reflects a decline, with consumer price inflation hovering at a significantly higher rate around 5.5%.

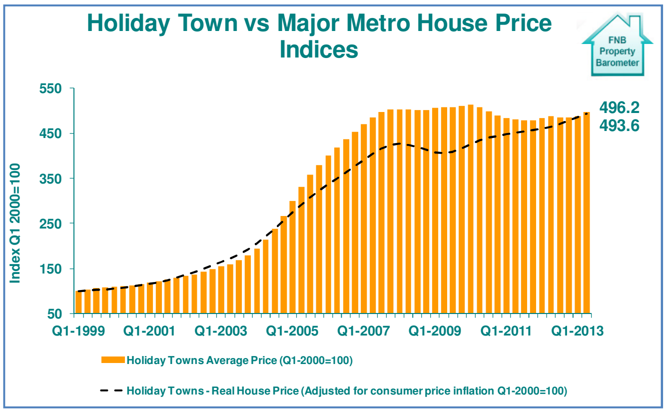


In real terms (again adjusting for consumer price inflation), the estimated "downward correction" in the Holiday Town price levels, since the peak of real prices as at the 4th quarter of 2007, has been a cumulative -27.5%. By comparison, the drop in real prices in the Major Metro House Price Index has been a lesser -14.7%.

However, this does not tell the full story regarding relative price levels of the 2 markets, because 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 is possible that, cumulatively, holiday town price performance still outdoes major metros since the late-1990s, albeit only by a very slight margin now. According to our estimates, since the 1st 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 Holiday Town House Price Index has grown by a cumulative 396.2%, as opposed to the Major Metro House Price Index's 393.6%.

However, the gap between the 2 is now insignificant, with the Major Metro price growth now significantly faster, steadily wiping out the holiday towns' boom time relative gains.



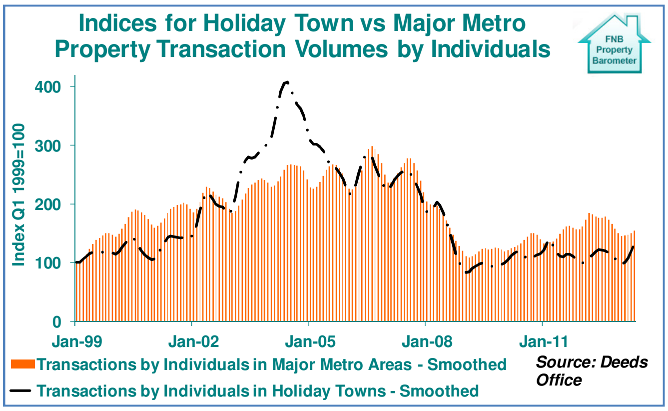
PRIMARY RESIDENTIAL MARKETS EXPECTED TO CONTINUE TO OUTPERFORM

For the foreseeable future, we would expect the major city markets to continue to outperform the holiday town markets.

While it should be encouraging for property owners in holiday markets to see some mild nominal house price growth, 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 2nd quarter of 2013 shows a 2% estimate.

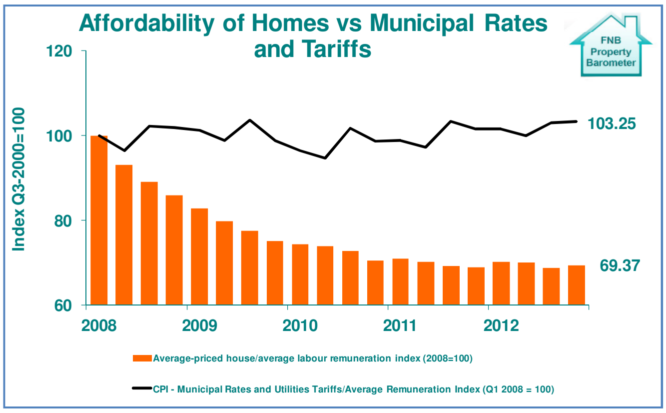
By comparison, primary residential buying remained high at an estimated 89% of total home buying, still well-higher than the 80% estimated for early-2007.

Much of this is arguably reflected in the volume of property transactions by individuals in holiday town regions, which according to our smoothed index of transaction volumes was still well-down at only 32% of their extreme boom time peak as at May 2013. By comparison, the estimated volume of individuals' transactions in major metros was a more respectable 52% of the boom time peak volume.



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 tariffs.

While the Average House Price/Average Labour Remuneration Ratio Index has dropped (improved affordability) to 69.4% of its early-2008 level (as at Q4 2012), the Municipal Rates and Tariffs/Average Labour Remuneration Ratio Index is at a higher 103.25% of its early-2008 level.



Such running cost affordability deteriorations may not appear too severe, but could be expected to impact more negatively on non-essential property buying than on primary residential buying.

**Note: The House Price Indices quoted in this report have been estimated using Deeds data transactions by individuals.*

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