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**MARKET ANALYTICS AND
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PROPERTY BAROMETER

FNB Residential Property Monthly

The FNB House Price Index's year-on-year inflation rate "treads" water, as lower base effects play a key role, but month-on-month growth continued to slow.

In February 2016, the FNB House Price Index recorded a 6.5% year-on-year rate of increase, which is very similar to the revised rates of the prior 2 months. This "treading water" in the year-on-year rate of increase over the past 3 months has much to do with a lower base effect created by a lull in house price growth a year ago.

On a month-on-month basis, however, the house price inflation rate continued to slow mildly on a seasonally-adjusted basis, and its lowly rate of increase points to a likely near term slowing in the year-on-year rate.

The FNB Valuers' market perceptions continue to be supportive of the expectation of slowing house price growth to come, having perceived some mild market weakening in the Market Strength Index (MSI) of late.

KEY POINTS

- The FNB House Price Index showed a year-on-year increase of 6.5% in February 2016, virtually unchanged from the revised 6.5% for the previous 2 months. This rate is being supported by "low base" effects, due to a dip in monthly house price inflation a year ago. The most recent months' house price growth rates are mildly down off the 6.9% 2015 high point of October.
- The month-on-month seasonally-adjusted house price inflation rate has been slowing for the past 5 months, from a 0.92% high in September 2015 to 0.23% by January 2016, a loss of growth momentum which should translate into lower year-on-year house price inflation in the near term.
- FNB's Valuers, as a group, appear to provide support for the expectation of slower house price growth, with the FNB Valuers' Market Strength Index (MSI) having begun to decline mildly in recent months, on the back of slowing residential demand and the start of improving supply.
- We forecast an average house price inflation rate of 4.8% for 2016, slower than the 6% recorded for 2015.
- Our expectation of slower house price growth in 2016 is not only about what FNB's Valuers tell us regarding slowing demand. It also has to do with the expectation that real economic growth will slow further from near 1.5% in 2015 to 0.5% this year. Depressed export commodity markets, along with a severe drought, are key to this slower growth forecast, as are rising interest rates.
- We expect further gradual interest rate hiking through 2016, to a level where Prime Rate ultimately peaks at 11.25% next year, from a current level of 10.25%.

EXECUTIVE SUMMARY

The FNB House Price Index for February 2016 rose by 6.5% year-on-year. This is virtually unchanged from the previous 2 months' revised rates, and mildly down from the 6.9% 2015 high point reached in October. With the month-on-month average price growth rate having slowed significantly, however, we anticipate a resumption of the slowing rate of year-on-year growth in the near term. The recent months' "treading water" in the year-on-year price growth rate has much to do with a low base effect created through a lull in monthly house price inflation early last year.

In real terms, when adjusting for CPI (Consumer Price Index) inflation, the rate of house price growth slowed to 0.2% in January, from a revised 1.3% in December, the slowing being caused by a rise in CPI inflation, from 5.2% in December to 6.2% in January (February CPI data not yet available).

Examining the longer term real house price trends (house prices adjusted for CPI inflation), the average real price currently remains 69.6% above the January 2001 level, around 15 years ago, and a time back just before boom-time price inflation started to accelerate rapidly. We therefore still regard current real price levels as very high.

Focusing on the month-on-month average house price inflation rate, we continued to see some loss of growth momentum in February, the rate having slowed to 0.23% on a seasonally-adjusted basis, from 0.25% previous and now significantly slower than the 0.92% 2015 high of September. This should soon translate into slower year-on-year price increases.

FNB's valuers, in their FNB Valuers Market Strength Index (MSI), appear to provide support in recent months for the expectation of a near term slowing in house price inflation.

The Valuers' Residential Demand Rating was at a level of 54.92 in February (scale 0 to 100), while the Supply Rating was at a lesser 53.40. This translates into an MSI of 50.76, with the level of above 50 implying that residential demand is still stronger than supply. However, the Residential Demand Index has been in decline since July 2015, the Supply Strength Index in positive growth territory since December 2015, translating into an MSI decline since October 2015. In short, the valuers, on average still perceive a well-balanced residential market, but have in recent times perceived Market Strength to have been deteriorating mildly.

The start of market weakening has to do with the combination of gradually rising interest rates along with weak and deteriorating economic fundamentals. After a Real GDP (Gross Domestic Product) growth rate believed to have been not far from 1.5% in 2015, the FNB forecast is for slower growth of 0.5% in 2016. The further expected slowing in growth is on the back of ongoing global economic and commodity price weakness, with increasing speculation around a possible global recession, and gradually rising interest rates.

The current environment of high social tensions and fragile labour relations continues, and this poses significant downside risk to economic and residential market performance forecasts.

CPI inflation is projected to rise from 4.6% average in 2015 to 6.1% average for 2016, on the back of a now weaker Rand, and higher food price inflation as the drought impact is felt. The SARB is expected to continue to lift interest rates slowly, with Prime Rate peaking at 11.25% in the 1st half of 2017. Much, though, will depend on the Rand's fortunes and its potential inflationary impact.

Under these weak economic conditions, and their negative impact on household income growth, the forecast is for average house price growth to slow from 6% average in 2015 to a 4.8% average in 2016, and a still slower 3.8% in 2017. While still positive in nominal terms, these projected rates would be below CPI inflation, translating into negative growth in real terms. Such negative real house price growth would reflect both higher interest rates along with ongoing weakness in economic growth, employment and household income growth.

The rental market could begin to mildly outpace the slowing home buying market through the forecast period, in turn leading to rising yields on residential property.

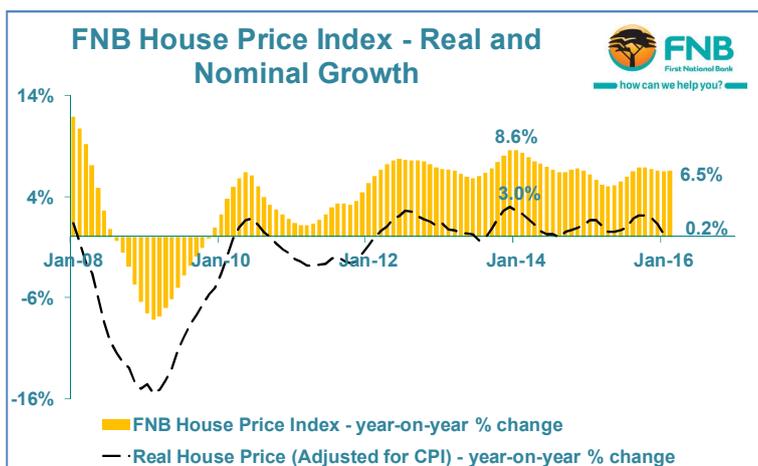
FEBRUARY FNB HOUSE PRICE INDEX FINDINGS

The FNB House Price Index for February 2016 rose by 6.5% year-on-year. This is virtually unchanged from the revised 6.5% rates of the prior 2 months. These recent months' growth rates are slightly off the 2015 high of 6.9% reached in October.

The "treading of water" in the year-on-year house price inflation rate in the past 3 months has much to do with a low base effect having been created a year ago by a lull in monthly house price growth, and we expect this base effect to give way to renewed slowing in the year-on-year house price inflation rate in the near term.

In real terms, when adjusting for CPI (Consumer Price Index) inflation, the rate of house price growth slowed to 0.2% in January, from a revised 1.3% in December, the slowing being caused by a rise in CPI inflation, from 5.2% in December to 6.2% in January (February CPI data not yet available).

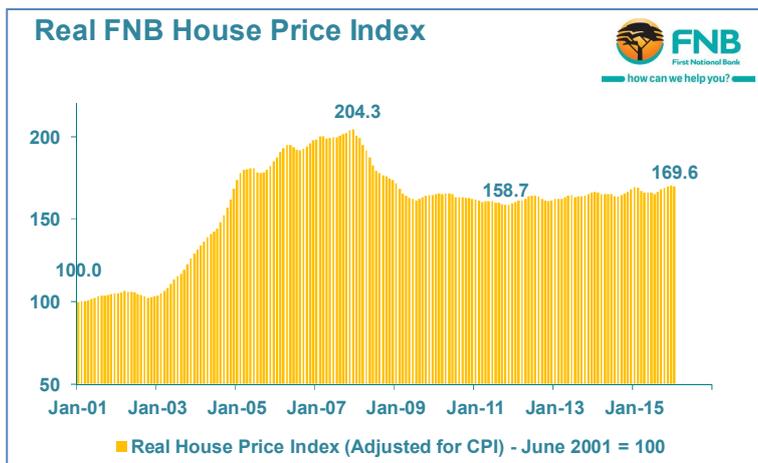
The average price of homes transacted in February was R1,055,499.



REAL HOUSE PRICE LEVELS

Examining the longer term real house price trends (house prices adjusted for CPI inflation), we see that despite some rise in recent years, (+6.9% since the October 2011 low) the average real house price level remains -17% below the all time high reached in December 2007 at the back end of the residential boom period.

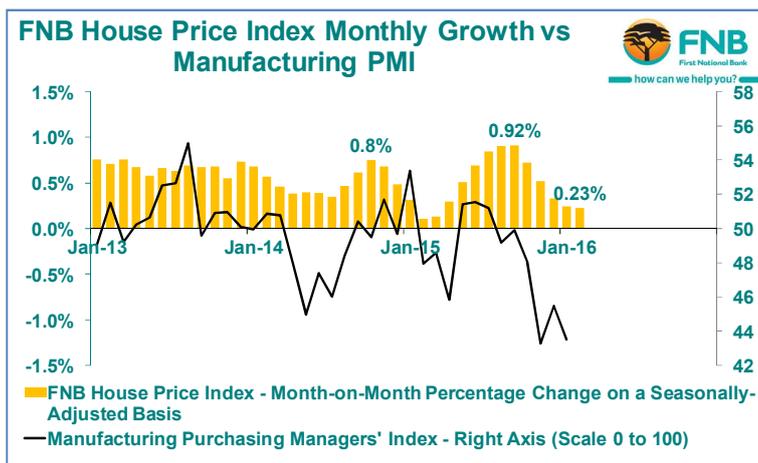
Looking back further though, the average real price currently remains 69.6% above the January 2001 level, around 15 years ago, and a time back just before boom-time price inflation started to accelerate rapidly. We therefore still regard current real price levels as very high.



In nominal terms, when not adjusting for CPI inflation, the average house price in February 2016 was 291.6% above the January 2001 level.

THE MONTH-ON-MONTH HOUSE PRICE RATE OF INFLATION LOSES MOMENTUM, SIGNALLING IMMINENT NEAR TERM SLOWING IN YEAR-ON-YEAR INFLATION

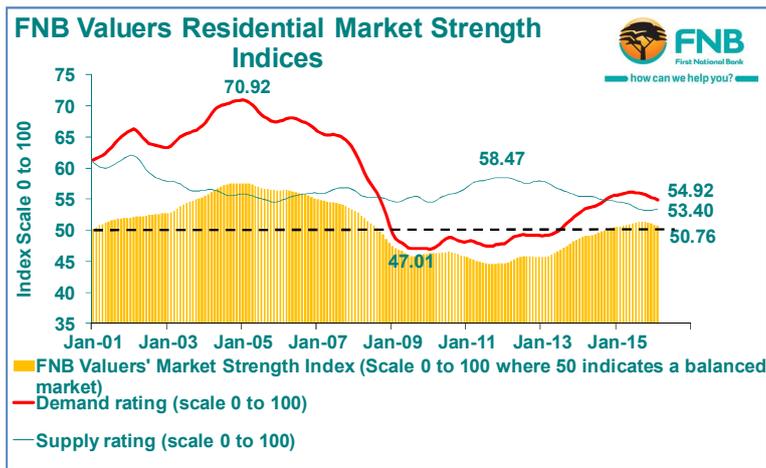
On a month-on-month seasonally adjusted basis (a better way to look at recent growth momentum), the rate of increase has already been slowing since October 2015, appearing to be roughly tracking short term fluctuations in the economy. From a 0.92% revised month-on-month high in September 2015, the rate has slowed to 0.23% by February 2016.



Last year's "mini-surge" in house price inflation around mid-2015 broadly co-incided with a slight positive "bump" in the economy around that time. The Manufacturing Sector Purchasing Managers' Index (PMI), one of the economy's key indicators, briefly rose to above 50 in May-July, signaling some expansion in this large and cyclical sector, and 3rd quarter GDP (Gross Domestic Product) turned slightly positive on a quarter-on-quarter basis.

More recently, however, the PMI has turned back down to below the critical 50 level, while the Leading Business Cycle Indicators of the SARB and OECD have also turned for the worse, suggesting a return to weaker economic times as we move into 2016. The resumed slowing in month-on-month house price inflation since October 2015 appears to therefore have begun to once again track the economy slower.

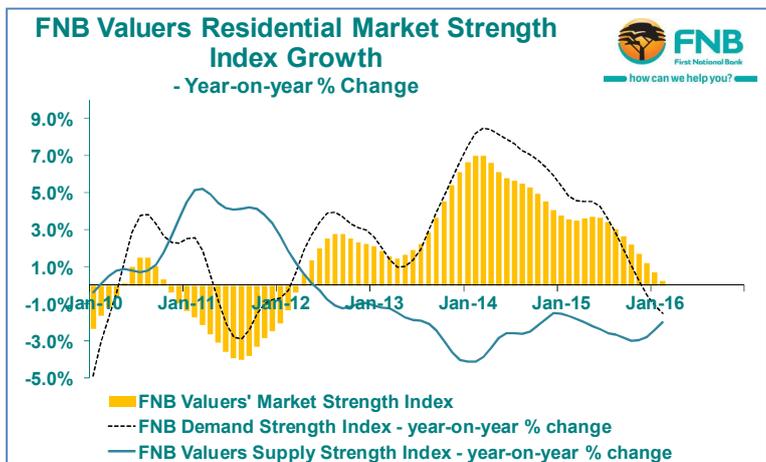
FNB'S VALUERS PERCEIVE WEAKENING IN RESIDENTIAL DEMAND



FNB's valuers, in their FNB Valuers Market Strength Index (MSI) (Explanatory notes on Page 11) have in recent times begun to perceive a weakening in the market.

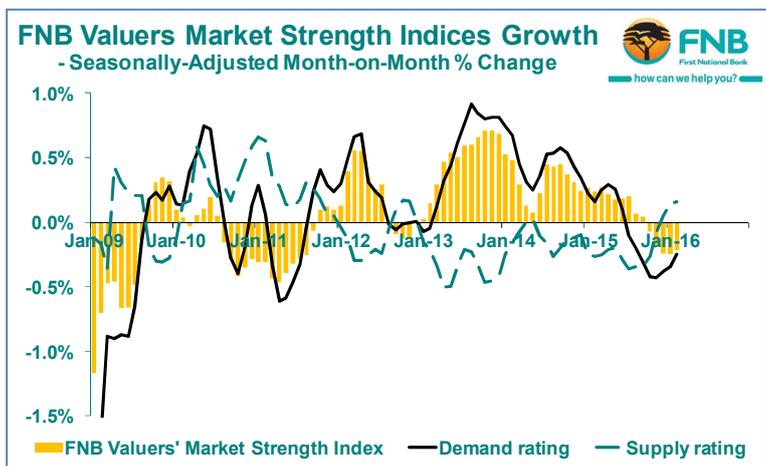
Examining the Demand, Supply and MSI itself, which reflects the difference between Demand and Supply, we see a still well balanced residential market.

The Valuers' Residential Demand Rating was at a level of 54.92 in February (scale 0 to 100), while the Supply Rating was at a lesser 53.4. This translates into an MSI of 50.76, with the level of above 50 implying that residential demand is still stronger than supply.



However, the rate of growth or decline in the indices is often insightful too. Examining the 3 indices on a year-on-year percentage change basis, we see that demand growth has been slowing steadily since early-2014, and eventually turned negative in December 2015.

On a month-on-month seasonally-adjusted basis, a better way of identifying recent momentum, the Residential Demand Index has been in decline since July 2015, the Supply Strength Index in positive growth territory since December 2015, and the MSI in decline since October 2015.



In short, the valuers, on average, as of late perceive Market Strength to have been deteriorating mildly.

We believe that this is supportive of our expectation of slower real and nominal house price growth in 2016.

REAL ALTERNATIVE PRIME RATE AND POTENTIAL FOR A SPECULATORS' MARKET

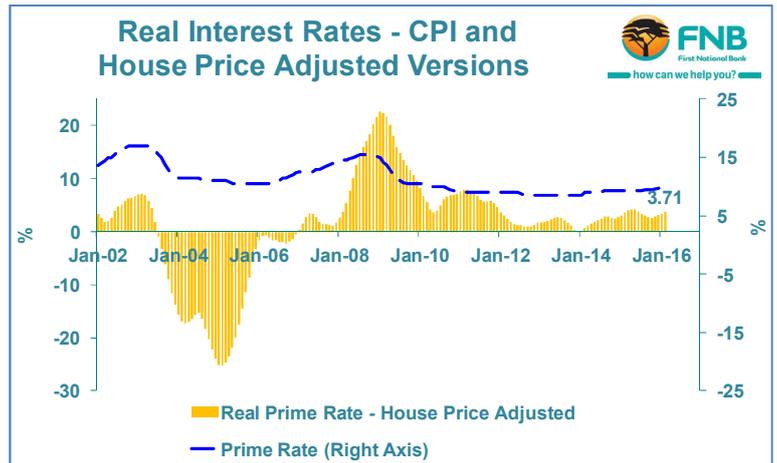
Ongoing interest rate hikes, with the latest one having been a 50 basis point rise in late-January, continue to take the market away from the speculator.

In order to create a “speculator’s paradise” in residential property, it is important to have price growth at a percentage significantly faster than the percentage of the annual interest charged on a mortgage loan.

Such an environment would give rise to widespread use of cheap credit to buy and sell properties in a relatively short space of time and make big capital gains. 2004-5 was such a speculators’ paradise.

To monitor this, we calculate our very simple “Alternative Real Prime Rate”, which adjusts Prime Rate to real terms using average house price inflation instead of the usual CPI inflation rate approach.

For a healthy market with low levels of speculation, we believe that this real rate should remain positive. Indeed, that was again the case in February, where the Real Alternative Prime Rate was 3.7%, having risen in recent times on the back of further interest rate hiking. We thus believe the SARB’s monetary policy stance to be appropriate currently from a residential market health point of view.



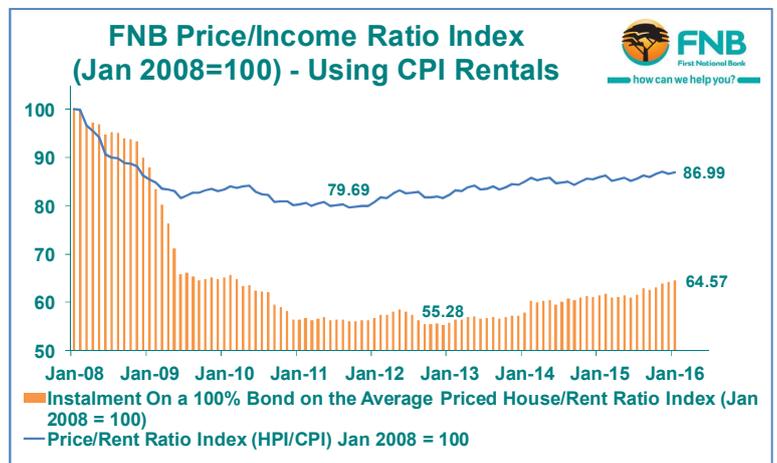
PRICE-RENT RATIO

The Price-Rent Ratio is one important ratio in determining how costly the home buying option is relative to the competing option, i.e. rental.

Analysts often become concerned when the Price-Rent Ratio is very high, as it can begin to make the rental option very appealing, translating at some stage into a drop in home buying and a fall in house prices.

House price booms typically take this ratio higher.

To this effect, we use the FNB House Price Index and the CPI for Actual rentals. We show it in index form (because the CPI is an index), with January 2008=100.



Given that January 2008 was right at the end of the real house price boom, we believe that it represented an extremely high level in the Price-Rent Ratio. After a drop through 2008/9, and again in 2011, the index began to rise noticeably as the residential market strengthened. The index was at 86.99 in January 2016, up 9.2% from September 2011.

While 86.99 is believed to be a high number, the other important ratio, i.e. the Instalment on a 100% bond on the average-priced house/Rent Ratio Index, is far lower. It has been kept far below January 2008 levels by a sharp drop in interest rates from late-2008. It reached a low of 55.28 as at December 2012. However, the combination

of house price inflation broadly out-pacing rental inflation, along with gradual interest rate hiking over the past 2 years, has taken this ratio 15.3% higher by January 2016, to a reading of 64.57.

This remains well-below the January 2008 100 level though, as interest rates are still at relatively low levels, but of course rates are in the process of rising.

CONCLUSION

The slowing month-on-month house price growth rate since October signals an imminent slowing in year-on-year house price growth as per the FNB House Price Index.

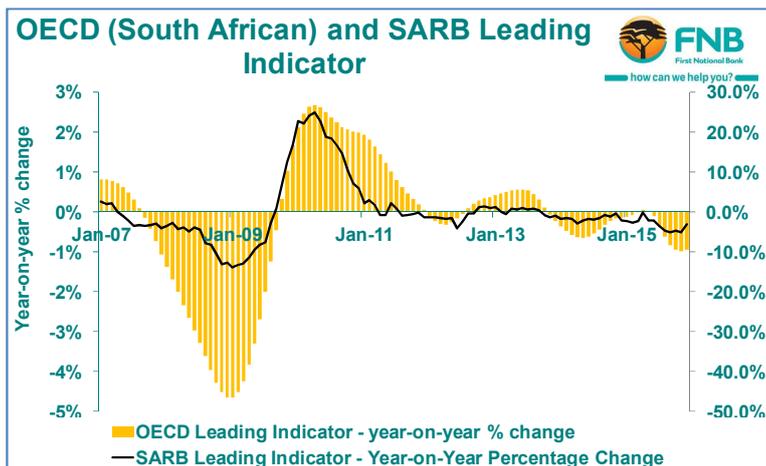
The February Valuers' Market Strength Index continues to support such an expectation of slowing house price growth to come, given that it has recently started to decline, driven lower by a declining Residential Demand rating and more recently a slight rise in the Residential Supply Rating.

In addition, we take cognizance of a host of negative economic data pointing to slower economic growth in 2016, with a high risk of recession. Firstly, there has been the drought that has decimated agriculture output as well as raising agriculture prices. This price increase still has to completely feed through into the CPI inflation rate and is of concern to the Reserve Bank.

But it goes further. Key global leading indicators continue to raise fears of a possible global economic recession, and global weakness has already placed severe downward pressure on SA's export commodities.

Rising interest rates, weak investor sentiment and consumer confidence, and export commodity prices in the doldrums, adds up to likely further slowing in economic growth in 2016, negatively affecting employment and household income growth.

The SARB Composite Leading Business Cycle Indicator for December 2015 recorded a -3.1% year-on-year decline, the 27th consecutive month of such decline, while the OECD Leading indicator for South Africa showed -0.95% year-on-year decline. This bodes ill for near term economic growth



THE FORECAST

After a Real GDP (Gross Domestic Product) growth rate believed to have been not far from 1.5% in 2015, the FNB forecast is for slower growth of 0.5% in 2016. The further expected slowing in growth is on the back of ongoing global commodity price weakness, gradually rising interest rates, and of course the major drought currently ravaging the Agriculture Sector.

In 2017, slightly better growth of 1.2% is projected on the assumption that the drought passes on and Agriculture output returns to normal. However, this projected growth rate remains very weak.

The current environment of high social tensions and fragile labour relations, which can periodically be disruptive to economic output, but is unpredictable, places a significant downside risk to the growth forecast, however.

CPI inflation is projected to rise from 4.6% average in 2015 to 6.1% average for 2016, on the back of a now weaker Rand, and higher food price inflation as the drought impact is felt.

The SARB is expected to continue to lift rates slowly, with Prime Rate peaking at 11.25% in the 1st half of 2017. Much, though, will depend on the Rand's fortunes, and the FNB "Base Case" assumes a reasonably well-behaved Rand not far from what is now a very weak level.

Under these economic conditions, the forecast for average house price growth is to slow from 6% average for 2015 as a whole to 4.8% for 2016, and a still slower 3.8% in 2017. While still positive in nominal terms, these projected rates would be below CPI inflation, translating into negative growth in real terms. Such negative real growth would reflect both higher interest rates along with ongoing weakness in economic growth, employment and household income growth.

The rental market could mildly outpace the home buying market through the forecast period, in turn leading to rising yields on residential property.

ECONOMIC, HOUSEHOLD SECTOR AND HOUSING MARKET SUMMARY FORECAST TABLE

(As 4th quarter 2015 economic data has yet to be published, 2015 remains part of the “forecast period”)

MACROECONOMIC SCENARIO SUMMARY	2012	2013	2014	Forecast Period			
				2015	2016	2017	2018
Domestic Economy							
Gross Domestic Product - Real - % change	2.2%	2.2%	1.5%	1.5%	0.5%	1.2%	1.4%
Prices							
Consumer Price Index - % change	5.7%	5.8%	6.1%	4.5%	6.1%	6.4%	5.5%
Interest Rates (%)							
Prime Interest Rate (Annual Average)	8.8	8.5	9.1	9.4	10.4	11.2	11.0
Effective Interest Rate on Household Debt (Annual Average)	10.8	10.8	11.6	12.1	13.0	13.8	13.6
Currency							
US Dollar/Rand Exchange Rate (Annual Average - Rand per \$)	8.21	9.65	10.84	12.77	16.58	16.31	16.80
HOUSEHOLD SECTOR SCENARIO SUMMARY	2012	2013	2014	Forecast Period			
Total Employment Index - % change	1.0%	0.4%	-0.4%	-0.7%	-1.6%	-1.0%	-0.9%
Household Debt (R'm) - % change *	8.9%	7.5%	5.8%	5.5%	4.9%	3.9%	5.5%
Nominal Disposable Income (R'm) - % change	8.8%	8.1%	7.4%	5.7%	5.7%	5.8%	6.9%
Debt to Disposable Income (%)	79.9%	79.5%	78.4%	78.2%	77.6%	76.2%	75.2%
Debt Service Ratio	8.7	8.6	9.1	9.5	10.1	10.5	10.2
Real Disposable Income - % change	2.3%	2.5%	1.4%	1.6%	0.3%	-0.9%	0.3%
RESIDENTIAL MARKET SCENARIO SUMMARY	2012	2013	2014	Forecast Period			
FNB Average House Price - % change	7.1%	6.8%	7.1%	6.0%	4.8%	3.8%	2.6%
FNB Average House Price - Real - % change	1.3%	0.9%	1.0%	1.4%	-1.3%	-2.5%	-2.8%
Residential Gross Yield (Annual Average)	9.3%	8.9%	8.7%	8.7%	9.1%	9.4%	9.7%

*The Household Debt figures used in these forecasts are derived from SARB Debt-to-Disposable Income Ratio data, and differ from the monthly SARB Household Credit data release



Monthly FNB House Price Index (Jan 2001 = 100)

how can we help you?

Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change
Jan-01	100.0		Jan-05	209.7	36.1%	Jan-09	272.8	-7.6%	Jan-13	317.88	6.7%
Feb-01	100.7		Feb-05	215.4	36.3%	Feb-09	270.7	-8.2%	Feb-13	321.34	6.6%
Mar-01	101.4		Mar-05	219.6	35.6%	Mar-09	269.5	-7.9%	Mar-13	325.00	6.5%
Apr-01	102.4		Apr-05	221.7	34.3%	Apr-09	268.6	-7.1%	Apr-13	327.78	6.3%
May-01	103.6		May-05	222.0	32.5%	May-09	267.5	-6.2%	May-13	329.41	5.9%
Jun-01	104.7		Jun-05	221.7	30.4%	Jun-09	267.8	-5.1%	Jun-13	330.66	5.8%
Jul-01	105.3		Jul-05	221.1	27.9%	Jul-09	269.2	-3.8%	Jul-13	331.90	6.0%
Aug-01	105.6	10.0%	Aug-05	221.3	25.0%	Aug-09	271.4	-2.9%	Aug-13	333.38	6.3%
Sep-01	106.0	9.2%	Sep-05	222.3	21.9%	Sep-09	273.8	-2.0%	Sep-13	335.14	6.8%
Oct-01	106.5	8.9%	Oct-05	224.5	19.1%	Oct-09	275.5	-1.1%	Oct-13	337.06	7.4%
Nov-01	107.3	9.0%	Nov-05	227.3	16.2%	Nov-09	276.6	-0.2%	Nov-13	339.17	8.1%
Dec-01	108.6	9.5%	Dec-05	231.0	13.9%	Dec-09	277.6	0.9%	Dec-13	342.06	8.6%
Jan-02	110.2	10.2%	Jan-06	235.3	12.2%	Jan-10	278.9	2.3%	Jan-14	344.98	8.5%
Feb-02	112.2	11.4%	Feb-06	240.0	11.4%	Feb-10	281.0	3.8%	Feb-14	348.07	8.3%
Mar-02	114.1	12.6%	Mar-06	244.2	11.2%	Mar-10	282.8	4.9%	Mar-14	350.63	7.9%
Apr-02	115.6	12.9%	Apr-06	247.4	11.6%	Apr-10	284.0	5.8%	Apr-14	352.28	7.5%
May-02	116.5	12.4%	May-06	248.9	12.1%	May-10	284.5	6.4%	May-14	353.20	7.2%
Jun-02	116.8	11.6%	Jun-06	249.3	12.5%	Jun-10	284.0	6.1%	Jun-14	353.54	6.9%
Jul-02	117.0	11.2%	Jul-06	249.9	13.0%	Jul-10	282.7	5.0%	Jul-14	353.81	6.6%
Aug-02	117.2	10.9%	Aug-06	251.1	13.5%	Aug-10	282.1	3.9%	Aug-14	354.62	6.4%
Sep-02	117.4	10.7%	Sep-06	252.9	13.8%	Sep-10	282.4	3.2%	Sep-14	356.61	6.4%
Oct-02	117.9	10.7%	Oct-06	255.1	13.6%	Oct-10	282.9	2.7%	Oct-14	359.32	6.6%
Nov-02	118.7	10.6%	Nov-06	257.7	13.4%	Nov-10	282.8	2.2%	Nov-14	362.14	6.8%
Dec-02	119.8	10.3%	Dec-06	260.8	12.9%	Dec-10	282.6	1.8%	Dec-14	364.47	6.6%
Jan-03	121.1	9.9%	Jan-07	263.9	12.1%	Jan-11	282.8	1.4%	Jan-15	366.28	6.2%
Feb-03	123.2	9.8%	Feb-07	266.3	11.0%	Feb-11	284.2	1.2%	Feb-15	367.56	5.6%
Mar-03	125.7	10.2%	Mar-07	268.1	9.8%	Mar-11	286.1	1.2%	Mar-15	368.75	5.2%
Apr-03	128.5	11.1%	Apr-07	269.7	9.0%	Apr-11	287.8	1.3%	Apr-15	369.92	5.0%
May-03	131.1	12.5%	May-07	271.9	9.2%	May-11	289.3	1.7%	May-15	371.19	5.1%
Jun-03	133.6	14.4%	Jun-07	274.8	10.2%	Jun-11	290.3	2.2%	Jun-15	372.76	5.4%
Jul-03	136.3	16.5%	Jul-07	277.7	11.1%	Jul-11	291.0	3.0%	Jul-15	374.84	5.9%
Aug-03	138.6	18.3%	Aug-07	280.6	11.8%	Aug-11	291.5	3.3%	Aug-15	377.45	6.4%
Sep-03	140.9	20.0%	Sep-07	283.6	12.1%	Sep-11	291.7	3.3%	Sep-15	380.93	6.8%
Oct-03	143.6	21.8%	Oct-07	287.0	12.5%	Oct-11	291.9	3.2%	Oct-15	383.95	6.9%
Nov-03	146.8	23.6%	Nov-07	290.8	12.9%	Nov-11	292.9	3.6%	Nov-15	386.40	6.7%
Dec-03	150.4	25.5%	Dec-07	293.9	12.7%	Dec-11	294.9	4.4%	Dec-15	388.34	6.5%
Jan-04	154.1	27.2%	Jan-08	295.3	11.9%	Jan-12	297.8	5.3%	Jan-16	389.98	6.5%
Feb-04	158.1	28.3%	Feb-08	294.9	10.7%	Feb-12	301.3	6.0%	Feb-16	391.58	6.5%
Mar-04	161.9	28.8%	Mar-08	292.6	9.1%	Mar-12	305.1	6.6%			
Apr-04	165.1	28.5%	Apr-08	289.0	7.1%	Apr-12	308.5	7.2%			
May-04	167.6	27.9%	May-08	285.2	4.9%	May-12	311.0	7.5%			
Jun-04	169.9	27.2%	Jun-08	282.0	2.6%	Jun-12	312.6	7.7%			
Jul-04	172.8	26.8%	Jul-08	279.9	0.8%	Jul-12	313.2	7.6%			
Aug-04	177.0	27.7%	Aug-08	279.4	-0.4%	Aug-12	313.5	7.6%			
Sep-04	182.3	29.4%	Sep-08	279.3	-1.5%	Sep-12	313.8	7.6%			
Oct-04	188.5	31.3%	Oct-08	278.6	-2.9%	Oct-12	313.7	7.5%			
Nov-04	195.6	33.3%	Nov-08	277.1	-4.7%	Nov-12	313.9	7.2%			
Dec-04	202.9	34.9%	Dec-08	275.1	-6.4%	Dec-12	315.1	6.9%			

ADDENDUM - NOTES:

Note on The FNB Average House Price Index: Although also working on the average price principle (as opposed to median or repeat sales), the FNB House Price Index differs from a simple average house price index in that it could probably be termed a “fixed weight” average house price index.

One of the practical problems we have found with house price indices is that relative short term activity shifts up and down the price ladder can lead to an average or median price index rising or declining where there was not necessarily “genuine” capital growth on homes. For example, if “Full Title 3 Bedroom volumes remain unchanged from one month to the next, but Sectional Title 1 Bedroom and Less (the cheapest segment on average) transaction volumes hypothetically double, the overall national average price could conceivably decline due to this relative activity shift.

This challenge of activity shifts between segments is faced by all constructors of house price indices. In an attempt to reduce this effect, we decided to fix the weightings of the FNB House Price Index’s sub-segments in the overall national index. This, at best, can only be a partial solution, as activity shifts can still take place between smaller segments within the sub-segments. However, it does improve the situation.

With our 2013 re-weighting exercise, we have begun to segment not only according to room number, but also to segment according to building size within the normal segments by room number, in order to further reduce the impact of activity shifts on average price estimates.

The FNB House Price Index’s main segments are now as follows:

- The weightings of the sub-segments are determined by their relative transaction volumes over the past 5 years, and will now change very slowly over time by applying a 5-year moving average to each new price data point. The sub-segments are:

- Sectional Title:

- Less than 2 bedroom – Large
- Less than 2 bedroom – Medium
- Less than 2 bedroom – Small

- 2 Bedroom – Large
- 2 bedroom – Medium
- 2 bedroom – Small

- 3 Bedroom and More - Large
- 3 Bedroom and More - Medium
- 3 Bedroom and More - Small

- Full Title:

- 2 Bedrooms and Less - Large
- 2 Bedrooms and Less - Medium
- 2 Bedrooms and Less - Small

- 3 Bedroom - Large
- 3 Bedroom - Medium
- 3 Bedroom - Small

- 4 Bedrooms and More - Large
- 4 Bedrooms and More - Medium
- 4 Bedrooms and More – Small

The size cut-offs for “small”, medium” and “large” differ per room number sub-segment. “Large” would refer to the largest one-third of homes within a particular room number segment over the past 5 year period, “Medium” to the middle one-third, and “Small” to the smallest one-third of homes within that segment.

- The Index is constructed using transaction price data from homes financed by FNB.
- The minimum size cut-off for full title stands is 200 square metres, and the maximum size is 4000 square metres
- The maximum price cut-off is R10m, and the lower price cut-off is R20,000 (largely to eliminate major outliers and glaring inputting errors).
- The index is very lightly smoothed using a Hodrick-Prescott smoothing function with a Lambda of 5.

ADDENDUM - NOTES:

Note on the FNB Valuers’ Market Strength Index: *When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple “good (100)”, “average (50)”, and “weak (0)”. From all of these ratings we compile an aggregate demand and an aggregate supply rating, which are expressed on a scale of 0 to 100. After aggregating the individual demand and supply ratings, we subtract the aggregate supply rating from the demand rating, add 100 to the difference, and divide by 2, so that the FNB Valuers’ Residential Market Strength Index is also depicted on a scale of 0 to 100 with 50 being the point where supply and demand are equal.

Property and Mortgage Market Summary

END OF PERIOD	2013	2014	2015	Q1-2015	Q2-2015	Q3-2015	Q4-2015	Nov-15	Dec-15	Jan-16	Feb-16
Residential Property Prices											
FNB National Average House Price (Rand)	891 925	955 463	1 012 675	990 656	1 000 795	1 018 188	1 041 064	1 041 530	1 046 746	1 051 169	1 055 499
<i>y/y % change</i>	6.8	7.1	6.0	5.6	5.2	6.4	6.7	6.7	6.5	6.5	6.5
<i>m/m seasonally-adjusted % change</i>								0.52	0.33	0.25	0.23
FNB Valuers Demand Strength Index	50.38	54.15	55.82	55.76	56.07	55.96	55.49	55.5	55.27	55.05	54.92
<i>y/y % change</i>	3.0	7.5	3.1	4.9	4.4	2.8	0.2	0.2	-0.5	-1.1	-1.5
<i>m/m % change</i>								-0.37	-0.42	-0.39	-0.25
FNB Valuers Supply Strength Index	56.71	55.1	53.8	54.49	54.13	53.42	53.15	53.132	53.188	53.294	53.404
<i>y/y % change</i>	-2.1	-2.8	-2.4	-1.7	-2.2	-2.7	-2.9	-2.9	-2.8	-2.4	-2.0
<i>m/m % change</i>								-0.02	0.10	0.20	0.21
FNB Valuers Market Strength Index	46.84	49.53	51.01	50.64	50.97	51.27	51.17	51.19	51.04	50.88	50.76
<i>y/y % change</i>	3.0	5.7	3.0	3.6	3.7	3.0	1.7	1.7	1.21	0.69	0.24
<i>m/m % change</i>								-0.19	-0.28	-0.32	-0.24
Major Metro Areas Average House Price (Rand)	1 076 982	1 160 719		1 210 321	1 226 400	1 242 243	1 260 520				
<i>y/y % change</i>	6.6	7.8		7.4	6.7	5.9	5.6				
- Upper Income Area Average House Price (Rand)	2 278 659	2 498 681		2 624 056	2 654 625	2 684 939	2 717 055				
<i>y/y % change</i>	7.9	9.7		9.0	7.5	6.0	5.1				
- Middle Income Area Average House Price (Rand)	1 240 517	1 343 803		1 409 400	1 434 520	1 456 507	1 478 734				
<i>y/y % change</i>	6.4	8.3		8.3	7.9	7.2	6.7				
- Lower Income Area Average House Price (Rand)	787 175	835 433		863 970	874 506	885 735	900 323				
<i>y/y % change</i>	5.7	6.1		5.7	5.4	5.2	5.5				
- Affordable Area Average House Price (Rand)	410 634	441 057		456 814	461 056	465 789	472 848				
<i>y/y % change</i>	6.4	7.4		6.4	5.4	4.6	4.6				
- Major 3 Provinces' Former Black Township Average House Price (Rand)	273 706	296 268		319 156	326 617	330 319	333 984				
<i>y/y % change</i>	7.5	8.2		11.9	12.1	10.2	8.3				
- Holiday Towns Average House Price (Rand)	829 378	900 787		957 088	966 371	964 099	955 977				
<i>y/y % change</i>	1.4	8.6		11.3	8.9	5.3	1.6				
FNB Estate Agent Survey											
Level of Residential Demand Activity (Scale 1 to 10)	6.27	6.58	6.31	6.73	6.33	6.14	6.02				
<i>y/y % change</i>	4.8	4.9	-4.1	-0.4	0.0	-7.4	-8.9				
First time buyers as a percentage of total buyers (%)	22.5	26.5	24.3	25.0	21.0	25.0	26.0				
Buy-to-let as a percentage of total buyers (%)	7.8	9.3	8.8	9.0	9.0	8.0	9.0				
Average time of properties on the market (Weeks and Days)	16.0	12.2	12.0	12.5	12.1	11.1	12.1				
Percentage of properties sold at less than asking price (%)	88.0	81.5	86.0	83.0	87.0	87.0	87.0				
Percentage of properties on the market for 3 months or more (%)	74.5	56.0	49.0	48.0	46.0	47.0	55.0				
Residential Building Sector											
Number of units' plans passed	50 447	56 809		12 536	16 660	16 835		4 676	4 088		
<i>y/y % change</i>	1.3	12.6		-10.5	17.9	10.9		-7.0	23.4		
Square metres' worth of plans passed	6 647 115	7 467 385		1 785 726	2 020 328	2 092 735		646 730	518 733		
<i>y/y % change</i>	6.4	12.3		4.0	11.9	1.2		0.7	13.2		
Average size of units' plans passed (square metres)	131.8	131.4		142.4	121.3	124.3		138	127		
Number of units completed	41 485	38 043		8 482	10 592	9 791		4 581	3 243		
<i>y/y % change</i>	-3.5	-8.3		-7.7	31.5	2.3		18.7	-7.8		
Square metres' worth of buildings completed	4885830.0	4707294.0		1 092 448	1 325 713	1 323 386		536 988	431 877		
<i>y/y % change</i>	1.5	-3.7		4.7	28.8	7.4		7.0	2.0		
Average size of units' completed (square metres)	117.8	123.7		128.8	125.2	135.2		117.22	133.17		

Property and Mortgage Market Summary



END OF PERIOD	2013	2014	2015	Q1-2015	Q2-2015	Q3-2015	Q4-2015	Nov-15	Dec-15	Jan-16	Feb-16
Mortgage Market											
New residential loans and re-advances granted (R'm)	196 144	213 318		55 954	58 201	60 250					
<i>y/y % change</i>	15.6	8.8		9.1	11.3	7.0					
Residential re-advances granted (R'm)	10 452	11 911		3 476	4 262	3 386					
<i>y/y % change</i>	26.06	13.96		18.5	50.3	7.0					
Total residential mortgage loans outstanding - Banks (R'm)	837 817 308	854 418 677		862 453 853	868 135 474	875 775 279		884 525 882	886 123 502		
<i>y/y % change</i>	1.3	2.		2.4	2.5	2.7		3.6	3.7		
Key Economic Indicators											
Real Gross Domestic Product (R'm at 2000 prices)	2 963 390	3 009 283		3 051 621	3 041 689	3 046 807					
<i>y/y % change</i>	2.2	1.5		2.2	1.3	1.0					
Real Residential Fixed Investment (R'm)	46 676	43 975		43 135	42 816	42 968					
<i>y/y % change</i>	-7.1	-5.8		-11.6	0.8	1.6					
Prime Rate (%)	8.5	9.1	9.4	9.3	9.3	9.5	9.5	9.5833	9.75	9.7738	10.3
Yields on Government Bonds 10 years and Longer (%)	7.7	8.3	8.2	7.6	8.1	8.3	8.7	8.5	9.3	9.6	9.2
Currencies - USDZAR	9.66	10.85	12.78	11.754	12.107	12.996	14.212	14.14	15.	16.35	15.76
Currencies - EURZAR	12.82	14.39	14.17	13.222	13.376	14.444	15.558	15.17	16.32	17.76	17.50
<i>CPI - y/y % change</i>	5.8	6.1	4.6	4.1	4.6	4.7		4.8	5.2	6.2	
<i>Gauteng pump price y/y%</i>				-22.0	-8.7	-6.5	-5.8	-6.9	-1.6	9.7	20.4
FNBBER Consumer Confidence Index	-5.3	-0.8	-9.5	-4.0	-15.0	-5.0	-14.0				
RMBBER Business Confidence Index	46	45	42	49.0	43.0	38.0	36.0				
SARB Composite Leading Business Cycle Indicator	99.4	97.8		95.9	95.8	93.2		93.62	93.52		
<i>y/y % change</i>	0.1	-1.7		-2.5	-1.5	-4.5		-5.04	-3.06		
<i>m/m % change</i>								0.02	-0.11		
Real Retail Sales (2008 Prices) - R'm	723 291	738 224		177 213	181 640	184 556		68 074	87 962		
<i>y/y % change</i>	2.7	2.1		2.8	3.1	3.4		3.8	4.1		
Manufacturing - Volume of Production (Index 2005=100)	106.53	106.6		101.5	102.5	110.5		117.2	99.9		
<i>y/y % change</i>	1.4	0.1		0.6	-1.6	2.0		-1.2	0.4		
Mining - Volume of Production (Index 2005=100)	99.49	98.14		97.8	102.9	102.3		104.1	101.7		
<i>y/y % change</i>	3.7	-1.4		9.3	5.9	0.9		-1.3	-0.3		
Vehicle Sales - Total (NAAMSA)	565 999	571 501	555 397	142 587	129 142	143 510	140 158	46 703	45 017	44 414	
<i>y/y % change</i>	5.0	1.0	-2.8	1.0	-1.9	-6.8	-3.1	2.7	-2.6	-4.9	
Passenger Vehicle Sales - Total (NAAMSA)	379 673	377 507	359 603	92 630	83 067	94 117	89 789	29 156	29 436	31 302	
<i>y/y % change</i>	4.1	-0.6	-4.7	-1.0	-2.6	-9.1	-5.6	2.3	-6.0	-3.0	