

PROPERTY BAROMETER – HOLIDAY TOWN PRICE TRENDS

Holiday Town House Price inflation points to the pace of strengthening in these markets starting to “level off” after a brief recovery period.

30 October 2015

HOLIDAY TOWN HOUSE PRICE INFLATION TAPERS FURTHER IN THE 3RD 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 price growth momentum. This index is compiled from Deeds transaction data for towns deemed to be “strongly holiday property-driven”.

In the 3rd quarter of 2015, the index showed year-on-year price growth of 7.2%, slower than the 9.5% rate of the previous quarter. This remains stronger year-on-year growth than that of the more primary residence-driven Major Metropolitan markets, but the price inflation rate has been slowing recently in line with the tapering direction in Major Metro price growth.

The recently solid Holiday Town house price growth, at least more solid than that of the Major Cities, through the 2nd half of 2014 and 2015 to date, reflects a late pick up in Holiday Town residential demand.

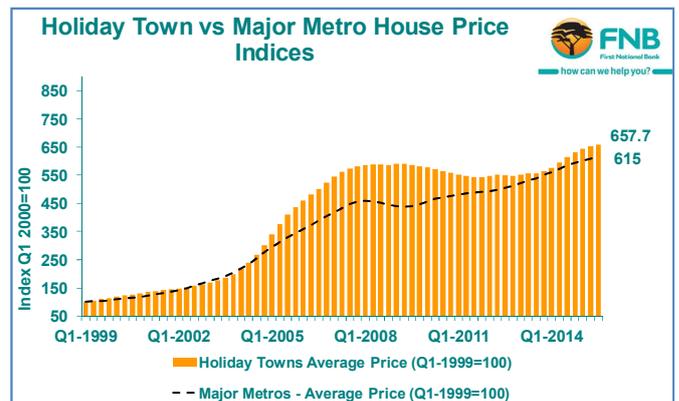
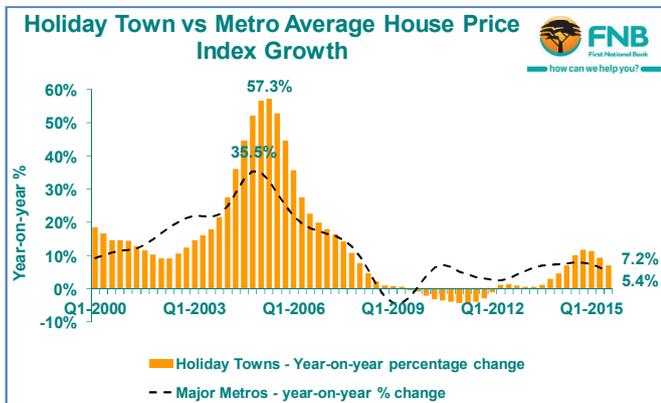
Whereas demand and transaction volumes in Major Metros recovered earlier in the post-recession period from 2009, with primary residential demand having been the 1st priority for the Household Sector, more recently the good times began to entice some recovery in holiday property demand.

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.

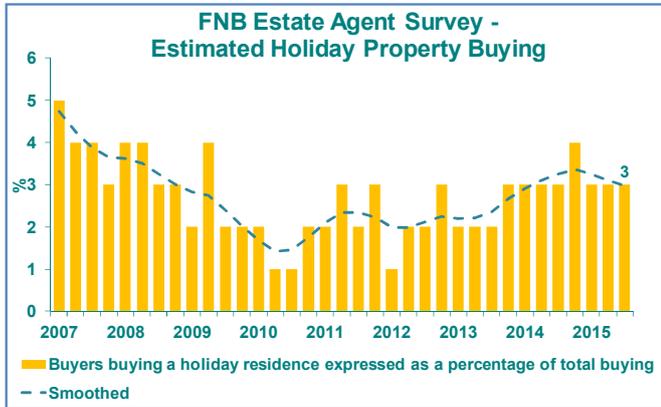
This was explained by a financially-constrained and highly indebted household sector following the 2008/9 recession, and it was understandable that primary residential demand-driven metros would perform better than holiday markets that were strongly driven by non-essential holiday property buying.

By 2014, however, financial pressures and household sector caution 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. More recently, in a relatively good property period, the gap started to widen slightly once more, with holiday town transaction volumes recovering more strongly off a low base, and prices inflating slightly more than the Major Metros. But this is not expected to last for very long, with all the signs pointing to a toughening economic environment.



The broad movement in the FNB Estate Agent Survey's question around the estimated percentage of home buyers buying holiday homes points to a similar picture. 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 1-3%.



OUTLOOK

Holiday Town Transaction volumes appear to have come back relatively strongly through 2014 and 2015 to date, after lagging the major Metro residential markets for some years.

However, in a weak economic environment, and with low levels of Consumer Confidence, we would expect this growth recovery to taper off. The slowing Holiday Town House Price Inflation rate, although still quite solid, may be a sign of affordability becoming more of an issue, which in turn could be expected to see to growth in transactions levels tapering off in the near term.

Holiday Town markets, because of the non-essential nature of a significant portion of the home buying in such areas, are arguably more cyclical than the Major Metros, and more sensitive to negative economic events.

Therefore, we expect growth in our FNB Holiday Town House Price Index to drop back to lower single digit rates below that of the Major Metro Regions in the not too distant future, with an economy teetering on the brink of recession.

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