

# PROPERTY BAROMETER – HOUSE PRICES BY SEGMENT

*In a financially constrained environment, translating into a focus on home affordability, it was probably to be expected that the Sectional Title Market’s price growth would mildly outpace that of Full Title in recent times*

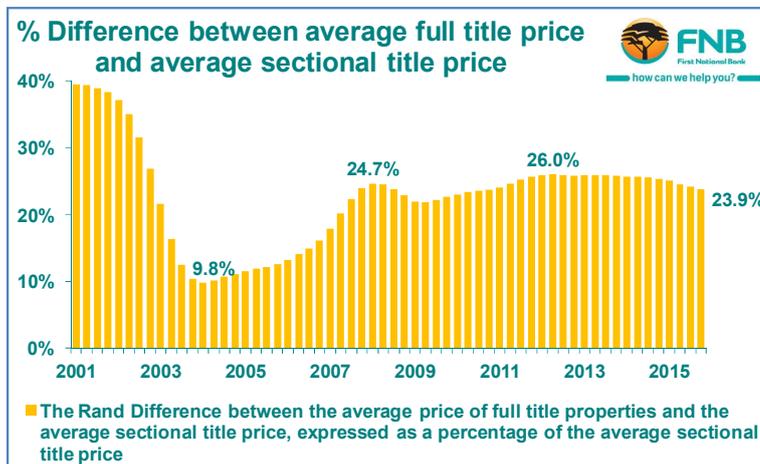
26 January 2016

**The past few years have been characterized by solid levels of 1<sup>st</sup> time home buying. This, along with the constrained nature of Household Sector finance, translates into a search for relative affordability in the housing market. Therefore, it is perhaps to be expected that the smaller sized home market segment has performed a little stronger than the more costly-to-run large-sized homes. In turn, this should translate into a stronger performance in the Sectional Title Market, and indeed this appears to have been the case.**

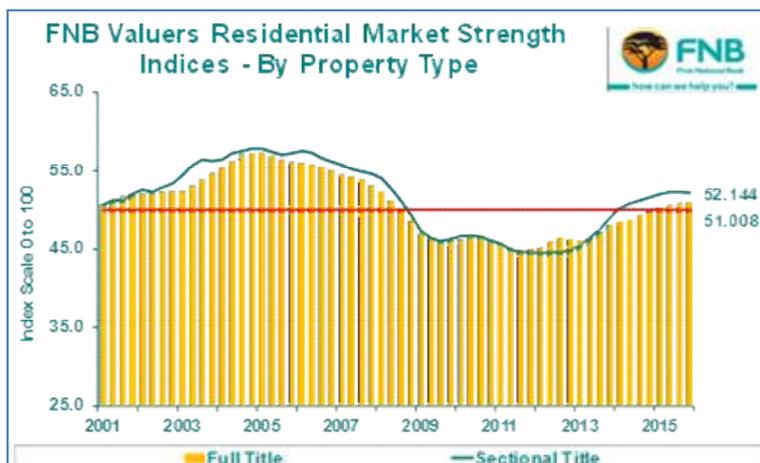


In the 4<sup>th</sup> quarter of 2015, the FNB Sectional Title House Price Index rose by 7.7% year-on-year, compared to the Full Title House Price Index’s 6.4%. This was the 8<sup>th</sup> consecutive quarter that the Sectional Title Index had shown mildly stronger growth than that of the Full Title Index

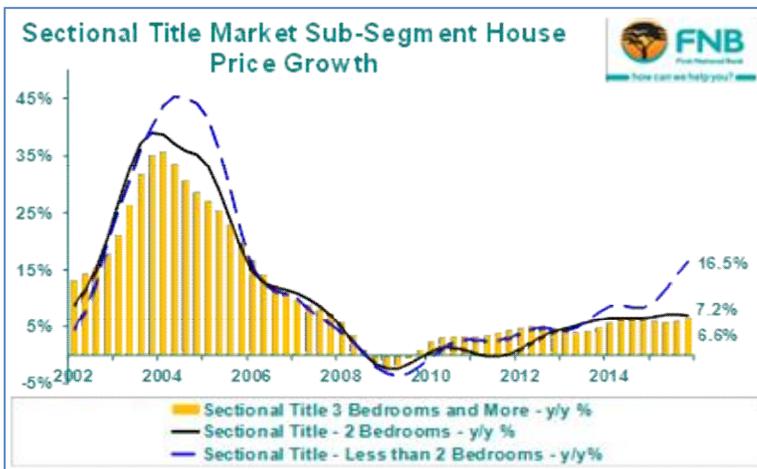
Since the start of the post-recession house price recovery in the 3<sup>rd</sup> quarter of 2009, the cumulative growth of the Full Title House Price Index has still been slightly more than that of the Sectional Title Index, to the tune of 40.9%, versus 38.6% for Sectional Title, so the Sectional Title Index has lagged slightly during the recovery years. But since the beginning of 2001, just after the indices started, the Sectional Title Index has outpaced the Full Title Segment, growing cumulatively by 340%, compared to the 290.3% of the Full Title Index.



Therefore, whereas the percentage difference between the average Full Title house price and that of Sectional Title was near 40% early in 2001, at the end of 2015 it was 23.9%. Sectional Title values have thus gained noticeably on the Full Title average over the past decade and a half.

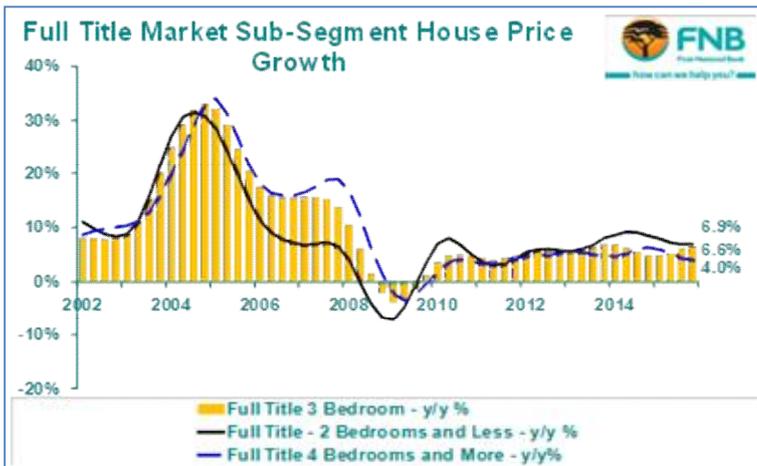


FNB’s valuers back this up with their own collective view of market strength, as captured in the Full and Sectional Title Market Strength Indices (MSI) (see note on page 4 for explanation). Here, as a group they have consistently perceived the Sectional Title Market to be stronger over the past 2 years or so, thus returning a higher MSI reading for the Sectional Title Market.



Within the Sectional Title Market, it is the smallest sized category, namely the “Less than 2 Bedrooms” category, which has shown the strongest price inflation and MSI of all 3 of the Room categories of late,, rising by a very solid 16.5% year-on-year in the final quarter of 2015.

By comparison, the “2 Bedroom Sectional Title” segment inflated by 7.2%, and the “3 Bedroom and More” segment by 6.6%.



The top performing sub-segment within Full Title was also the smallest sized “2 Bedrooms and Less” segment, with 6.9% year-on-year average price inflation, followed by the “3 Bedroom” segment with 6.6% inflation, and the largest “4 Bedrooms and More” segment only rising by 4%.

**Therefore- be it Sectional or Full Title, the theme remains the same it seems, i.e. “smaller performs better”.**

These relative performances of the sub-segments reflect the combination of a still strong desire of aspirant 1<sup>st</sup> time buyers to get onto the property ladder in recent years, coupled with a financially constrained Household Sector in a stagnating economic environment. Households are constrained by the combination of slow employment and income growth, along with high levels of indebtedness.

On top of this, home-related costs, especially Municipal rates and Utilities Tariffs (Eskom most notably), have been rising significantly faster than overall Consumer Price Inflation. Electricity and water costs can be contained by owning a “smaller” home with less luxuries, as well as containing maintenance and general running costs. Insurance and security costs are 2 such key costs.

Finally there is the issue of increasing land scarcity in major urban areas.

Sectional Title properties have the ability to better address both affordability and running cost issues, on top of often utilizing scarce land more effectively than the Full Title category.

**Sectional Title price performance could thus continue to outperform Full Title for the foreseeable future, as we move into tougher economic times. However, both property categories are expected to slow at the hands of rising interest rates and a multi-year economic growth stagnation.**

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## 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.

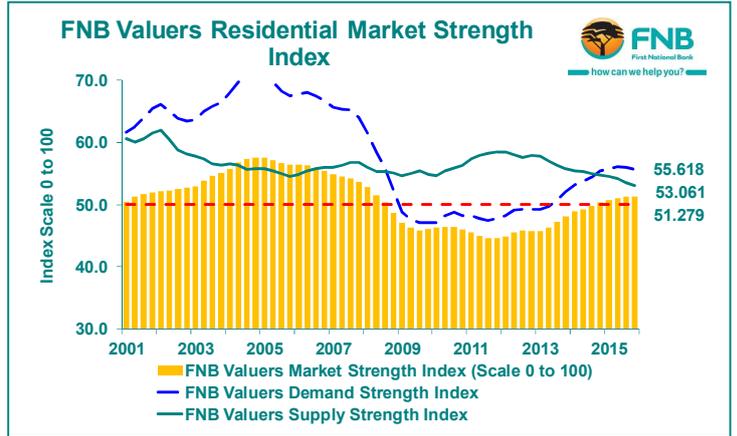
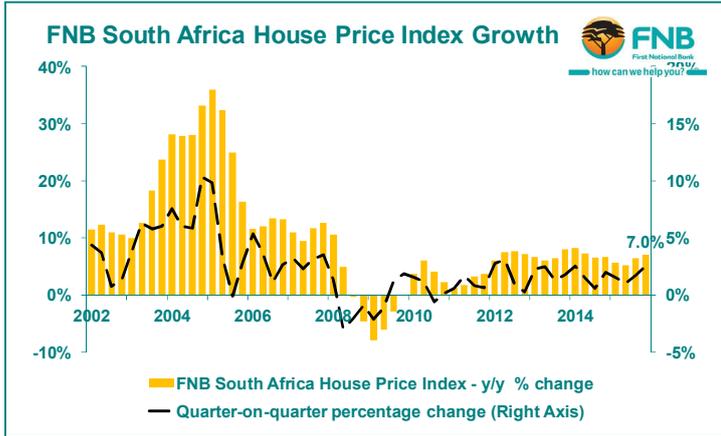
- The Index is constructed using transaction price data from homes financed by FNB.
- The minimum size cut-off for full title stands is 200 square metres, and the maximum size is 4000 square metres

- 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.

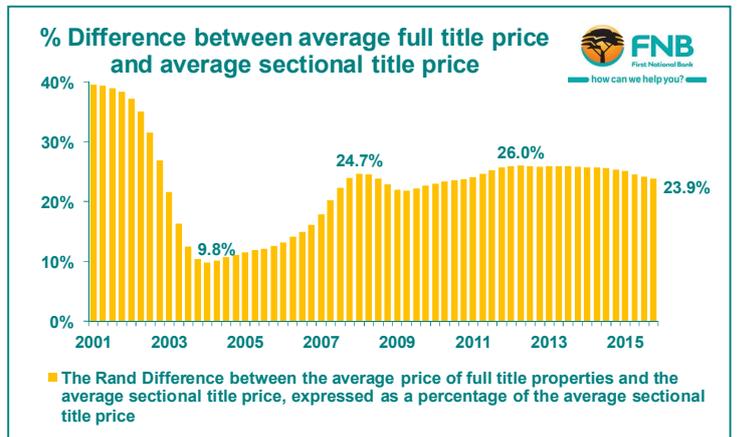
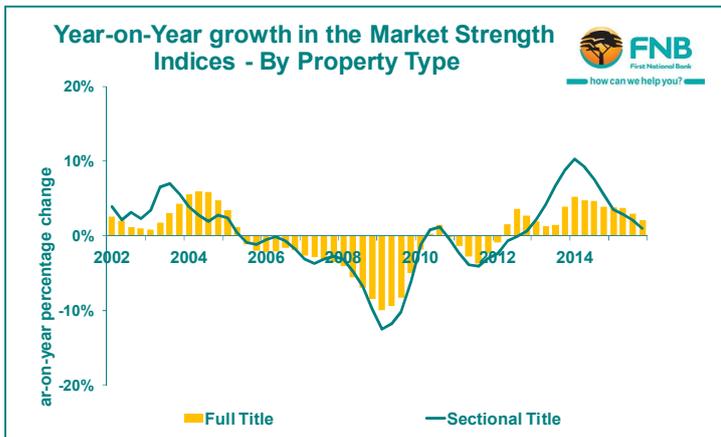
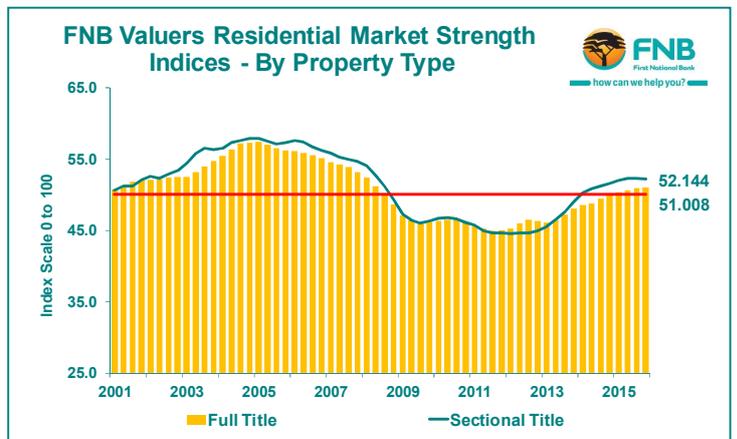
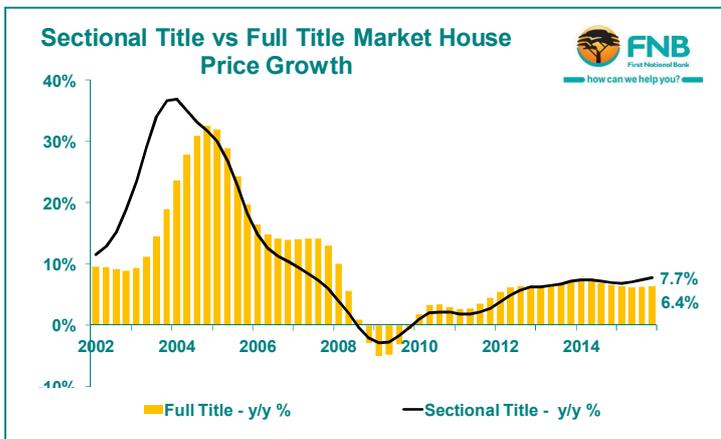
**Note on the FNB Valuers' Market Strength Index:** \*When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple "good (100)", "average (50)", and "weak (0)". From all 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.

# SEGMENT PERFORMANCES

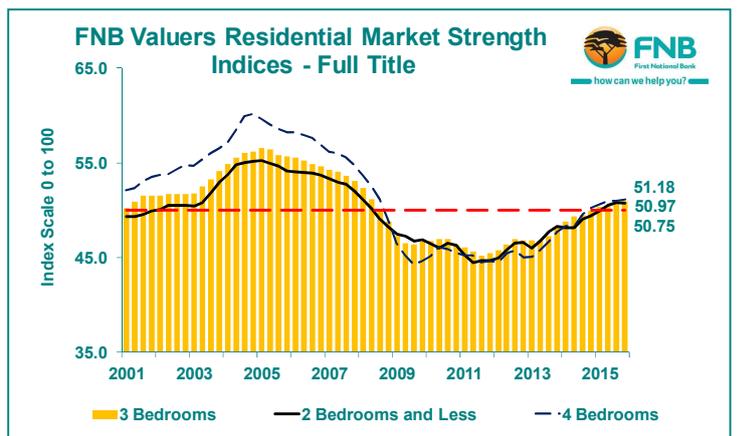
- Total Market**



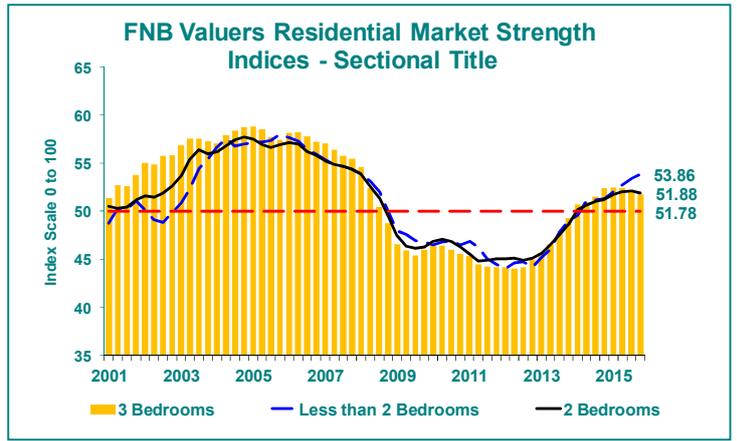
- Sectional Title vs Full Title**



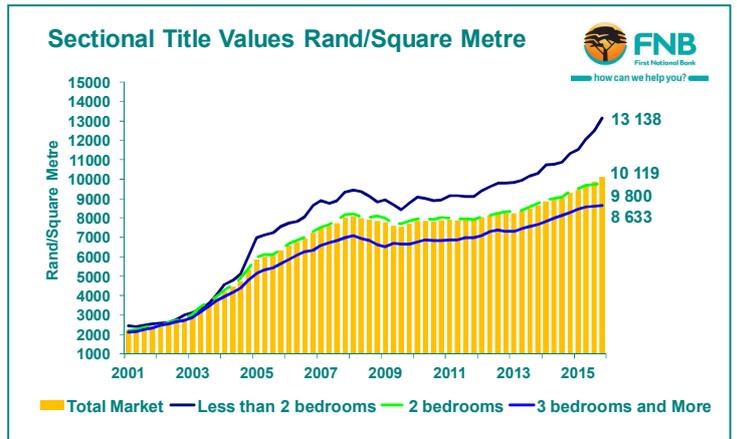
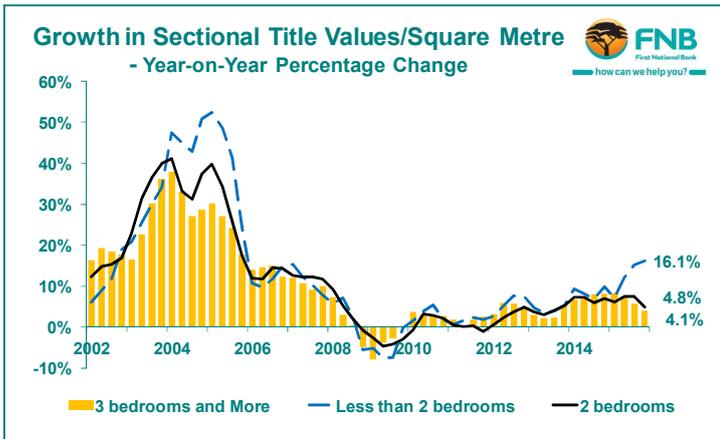
- Full Title**



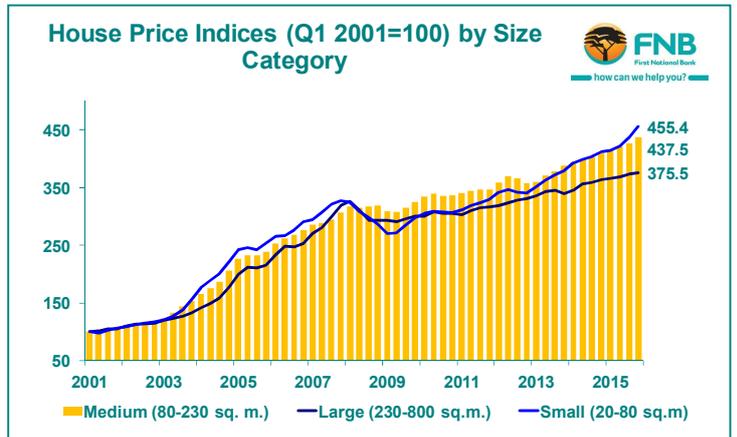
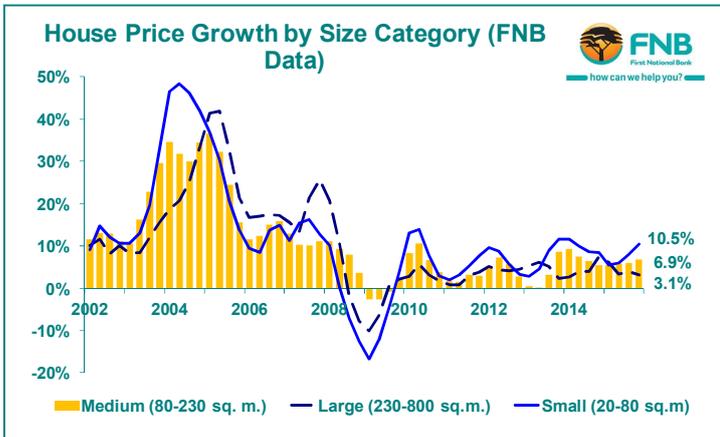
- Sectional Title



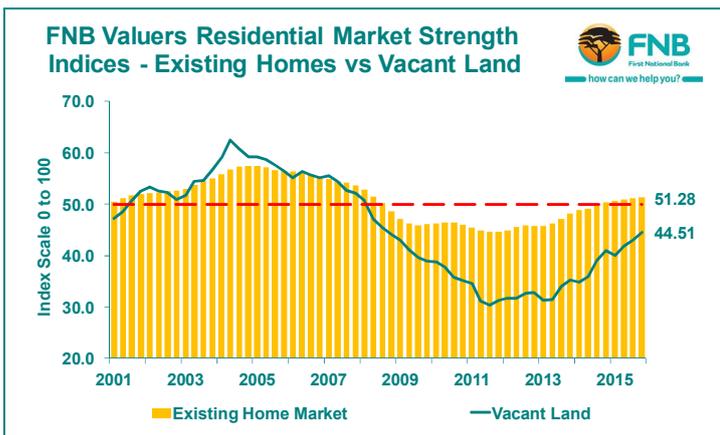
- Sectional Title Per Square Metre



- Home Size Segments



- Existing Homes vs Vacant Land



## AVERAGE HOUSE PRICE BY MAJOR SEGMENT

	2011	2012	2013	2014	2015	Q1-2015	Q2-2015	Q3-2015	Q4-2015
<b>FULL TITLE SEGMENT</b>									
<b>Full Title Average Price (Rand)</b>	853 714	905 413	965 689	1 033 165	1 098 337	1 072 944	1 088 845	1 106 442	1 125 116
- year-on-year % change	3.3%	6.1%	6.7%	7.0%	6.3%	6.3%	6.2%	6.3%	6.4%
- quarter-on-quarter % change						1.5%	1.5%	1.6%	1.7%
<b>2 Bedrooms and Less (Rand)</b>	442 464	468 237	499 332	543 620	583 110	568 861	577 906	587 595	598 079
- year-on-year % change	3.6%	5.8%	6.6%	8.9%	7.3%	7.9%	7.3%	7.0%	6.9%
- quarter-on-quarter % change						1.7%	1.6%	1.7%	1.8%
<b>3 Bedroom (Rand)</b>	891 563	941 594	998 801	1 057 972	1 118 209	1 091 386	1 107 845	1 126 742	1 146 861
- year-on-year % change	4.4%	5.6%	6.1%	5.9%	5.7%	4.9%	5.3%	6.0%	6.6%
- quarter-on-quarter % change						1.4%	1.5%	1.7%	1.8%
<b>4 Bedrooms and More (Rand)</b>	1 422 113	1 493 116	1 571 271	1 659 475	1 739 988	1 715 294	1 731 103	1 747 953	1 765 602
- year-on-year % change	3.8%	5.0%	5.2%	5.6%	4.9%	5.9%	5.1%	4.4%	4.0%
- quarter-on-quarter % change						1.0%	0.9%	1.0%	1.0%
<b>SECTIONAL TITLE SEGMENT AVERAGE HOUSE PRICE</b>									
<b>Sectional Title Average House Price (Rand)</b>	683 596	719 118	767 177	822 709	882 779	857 866	874 084	890 816	908 352
- year-on-year % change	2.1%	5.2%	6.7%	7.2%	7.3%	6.9%	7.1%	7.4%	7.7%
- quarter-on-quarter % change						1.8%	1.9%	1.9%	2.0%
<b>Less than 2 Bedroom (Rand)</b>	471 569	492 909	521 483	566 789	640 950	602 739	627 030	653 108	680 922
- year-on-year % change	2.7%	4.5%	5.8%	8.7%	13.1%	9.5%	11.8%	14.4%	16.5%
- quarter-on-quarter % change						3.1%	4.0%	4.2%	4.3%
<b>2 Bedroom (Rand)</b>	622 677	640 535	675 938	720 641	772 351	752 350	766 142	778 947	791 963
- year-on-year % change	0.0%	2.9%	5.5%	6.6%	7.2%	6.9%	7.3%	7.3%	7.2%
- quarter-on-quarter % change						1.8%	1.8%	1.7%	1.7%
<b>3 Bedrooms and More (Rand)</b>	950 381	997 402	1 041 523	1 106 651	1 174 580	1 146 008	1 163 365	1 183 585	1 205 363
- year-on-year % change	3.9%	4.9%	4.4%	6.3%	6.1%	6.0%	5.8%	6.1%	6.6%
- quarter-on-quarter % change						1.4%	1.5%	1.7%	1.8%
<b>SECTIONAL TITLE PER SQUARE METRE</b>									
<b>Sectional Title Average Price (Rand/square)</b>	7 894	8 165	8 427	9 025	9 775	9 451	9 664	9 867	10 119
- year-on-year % change	0.5%	3.4%	3.2%	7.1%	8.3%	6.8%	8.2%	9.3%	8.9%
- quarter-on-quarter % change						1.7%	2.3%	2.1%	2.6%
<b>Less than 2 Bedroom (Rand/square metre)</b>	9 122	9 650	10 063	10 926	12 306	11 514	12 056	12 515	13 138
- year-on-year % change	1.6%	5.8%	4.3%	8.6%	12.6%	7.1%	12.0%	15.1%	16.1%
- quarter-on-quarter % change						1.8%	4.7%	3.8%	5.0%
<b>2 Bedroom (Rand/square metre)</b>	7 959	8 187	8 511	9 091	9 677	9 496	9 674	9 737	9 800
- year-on-year % change	-0.1%	2.9%	4.0%	6.8%	6.4%	6.1%	7.5%	7.4%	4.8%
- quarter-on-quarter % change						1.6%	1.9%	0.7%	0.6%
<b>3 Bedrooms and More (Rand/square metre)</b>	6 933	7 268	7 499	8 057	8 571	8 458	8 585	8 607	8 633
- year-on-year % change	1.5%	4.8%	3.2%	7.4%	6.4%	8.3%	7.5%	5.7%	4.1%
- quarter-on-quarter % change						1.9%	1.5%	0.3%	0.3%

## AVERAGE HOUSE PRICE BY SIZE CATEGORY

	2011	2012	2013	2014	2015	Q1-2015	Q2-2015	Q3-2015	Q4-2015
<b>HOUSE PRICES BY HOME SIZE</b>									
<b>Large Homes (Rand)</b>	1 581 893	1 653 509	1 731 377	1 809 679	1 884 483	1 861 867	1 872 366	1 896 111	1 907 588
- year-on-year % change	2.1%	4.5%	4.7%	4.5%	4.1%	6.2%	3.3%	4.0%	3.1%
- quarter-on-quarter % change						0.7%	0.6%	1.3%	0.6%
<b>Medium Sized Homes (Rand)</b>	847 754	892 857	920 274	986 247	1 045 911	1 021 368	1 037 166	1 048 953	1 076 155
- year-on-year % change	2.4%	5.3%	3.1%	7.2%	6.0%	5.4%	5.9%	6.0%	6.9%
- quarter-on-quarter % change						1.4%	1.5%	1.1%	2.6%
<b>Small Sized Homes (Rand)</b>	418 396	446 693	477 708	523 644	562 894	539 613	549 925	568 716	593 323
- year-on-year % change	4.5%	6.8%	6.9%	9.6%	7.5%	5.4%	5.9%	8.0%	10.5%
- quarter-on-quarter % change						0.5%	1.9%	3.4%	4.3%