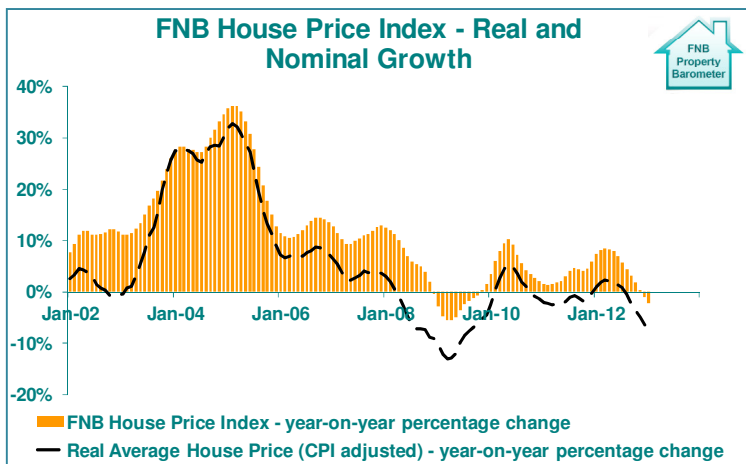


# PROPERTY BAROMETER – FNB HOUSE PRICE INDEX – JANUARY 2013

*The FNB House Price Index takes a mild Decline late in 2012 and early-2013, with high base effects from a year ago, better activity on the lower end, and a weakened economy, all playing a role*

4 February 2013

*In January 2013, the FNB House Price Index continued its mild short term dip. From a revised year-on-year decline of -1.1% in December, the index declined further by -2.3% in January.*



**The causes are believed to be threefold:**

*Firstly, a high base effect has come into play, due to a healthy price growth surge early in 2012 as the residential market showed significant strengthening at that stage. This has a negative impact on the year-on-year growth rate a year later.*

*Secondly, we appear to have seen relatively healthier transaction volumes on the lower priced end of the market, which has translated into something of a shift in relative transaction volumes in favour of the lower end of the market in recent times it would seem. That is not entirely unexpected as tough economic conditions drive the search for affordability.*

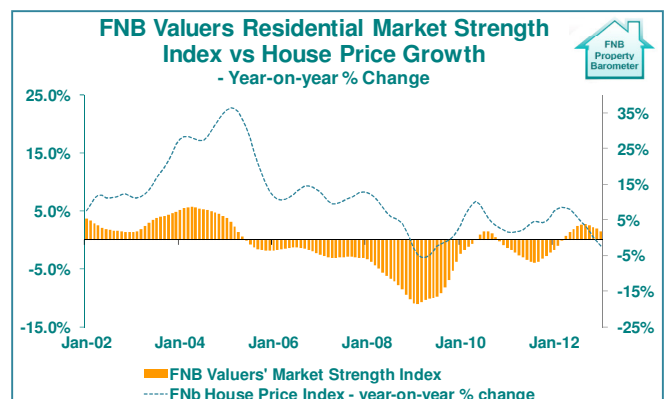
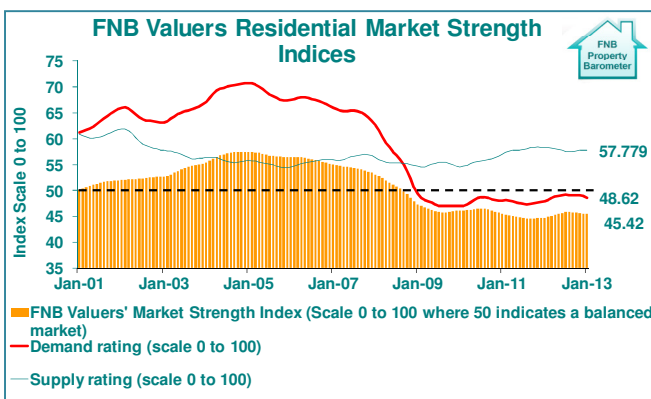
*in economic growth in the 2<sup>nd</sup> half of 2012, after a relatively good 1<sup>st</sup> half. This was caused by a lull in global economic growth at the time, along with major output disruption locally due to widespread industrial action, especially in the mining sector. As such, it is believed that very little economic growth took place in the 4<sup>th</sup> quarter, after a dismal 1.2% annualized growth rate in the 3<sup>rd</sup> quarter. This was bound to slow growth in residential demand somewhat in the latter stages of 2012 as household disposable income growth slowed too.*

*But thirdly, we also saw a considerable deterioration*

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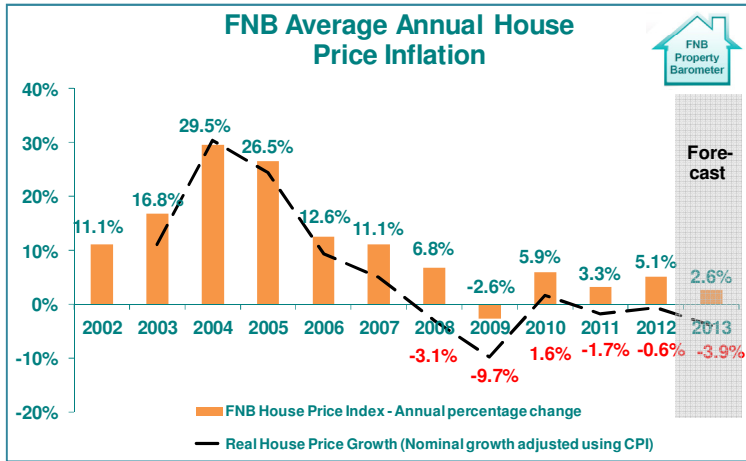
*And so, we simultaneously have seen some weakening in the FNB Valuers' Market Strength Indices, an indication of FNB valuers' perceptions of demand, supply, and by implication market balance (see notes at the end for explanation). The Valuers' Demand Strength Index in January weakened slightly further from a previous months' 48.9 to a level of 48.6, and although the Supply Strength Index also weakened slightly, the cumulative impact was a slight weakening in the overall Market Strength Index (demand rating minus supply rating) from a previous 45.5 to a January level of 45.4. While such small month-to-month movements are not too significant, viewed over a number of months we have seen a gradual slowing in the year-on-year rate of increase in the FNB Valuers' Market Strength Index, from a peak 2.7% as at September 2012 to 1.5% as at January 2013. This direction appears to support the notion of a slowing pace of market improvement.*

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## CONCLUSION

Important to emphasise, though, is that after some good improvement earlier in 2012, conditions in the residential property market are still relatively “comfortable”, but recently the improvement just appears to have slowed temporarily. Negative growth in the FNB Index may be little “overdone” due to high base effects and some transaction volume shift in favour of the lower end.



Looking ahead into 2013, it is expected that low positive nominal house price growth will be restored in the near term, with signs of some improvement in the world economy once more, along with the possibility that the domestic economy will benefit from reduced industrial action and production disruptions since late-2012.

As such, we still remain of the view that 2013 will see slow but positive nominal house price growth in the region of 2.5% average for the year.

### 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 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 “suburban segment volumes remain unchanged from one month to the next, but former Black Township (the cheapest areas 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.

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

- The weightings of the 10 sub-segments were determined by their relative transaction volumes over the 5 years from 2003 to 2007. The weightings are fixed (to be revised periodically):

- Sectional Title:

- o Less than 2 bedroom (Weight – 0.0718)
- o 2 Bedroom (Weight – 0.2106)
- o 3 Bedroom (Weight – 0.101)
- o 4 Bedrooms (weight – 0.0031)
- o More than 4 Bedrooms (Weight – 0.0002)

- Full Title:

- o Less than 2 Bedrooms (Weight – 0.053)
- o 2 Bedrooms (Weight – 0.1092)
- o 3 Bedroom (Weight – 0.3561)
- o 4 Bedroom (Weight – 0.0811)
- o More than 4 Bedroom (Weight – 0.0139)

- *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*

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*point where supply and demand are equal.*