

The myth of 5-6% p.a. house price growth – it was only 1% p.a.

The man in the street is not getting the full picture. He is being told by the banks, mortgage originators and estate agents that average home prices increased by between 5% and 6% per annum in 2015, when in actual fact, they only increased by 0.94% per annum. This is according to Neville Berkowitz, property economist and adviser to low-commission estate agency, HomeBid.

Even the South African Reserve Bank is using this incorrect information in its assessment of home price inflation which it estimates at the inflation rate of 5.2% p.a. for 2015, according to the December 2015 Reserve Bank Quarterly Bulletin.

“The discrepancy lies in the limited sample of sales and transfers used by these market commentators,” says Berkowitz. “We, however, analyse every single home sold and transferred in all the deeds offices around the country: 289,613 in 2015 and 290,257 in 2014.

In 2014 the average price of a home transacted at the deeds offices around the country was R1,222,639 and in 2015 it was R1,234,120 - an increase of only 0.94% p.a. This is based on information supplied to us by the South African Property Transfer Guide (SAPTG), which we use to analyse market trends.”

South Africa’s banks each only have a maximum 9% market share of the total sales and transfers due to 65.5% of homes being bond-free, according to research by ABSA and Lightstone.

The banks’ samples on which they base their home price increases may not therefore be fully representative of the entire residential market.

“High-commission estate agencies each have less than 5% market share of all the homes sold and transferred in 2015 on which to calculate their home price increases, so they obviously also lack the information based on all the 289,613 homes sold and transferred last year,” says Berkowitz.

To illustrate, the largest number of homes transacted in 2015 was in the lowest-price category of less than R250,000, where some 85,155 homes, or 29.4% of all homes were transacted. These homes, on average, dropped 6.7% in price in nominal terms, and 11.9% down in real terms (after inflation), in 2015 when compared to 2014. This was mainly due to the 0.5% p.a. increase in interest rates last year. The prospects for this price category in 2016 are even bleaker as interest rates are expected to rise during the year by at least 1.5% p.a.

At the top end of the price category range are the R10 million-plus homes which saw the highest average price increase of only 2% p.a. This is based on the average price of the 2,642 homes sold and transferred nationwide in this price category in 2015 when compared to 2014.

The table below from HomeBid Research/SAPTG identifies the ranking performance of the home price movements in 2015 compared to 2014 for each of the 11 price categories monitored, the number of sales per price category nationwide as well as their market share of all transfers effected in 2015.

“What concerns me most about these 5% to 6% p.a. average home price increases used by market commentators, who may be using limited samples of homes sold and transferred, is that the average homeowner believes he currently has an inflation-proof investment rising at above the inflation rate,” says Berkowitz.

“In 2015, however, the 0.94% average home price increase was, in fact, a real decline of 4.2% after adjusting for inflation, and well below the inflation rate of 5.2% p.a. for the year.

The outlook for 2016 is worse, with a possible drop in nominal average home prices below zero and an inflation rate (CPI) probably higher than the 3% to 6% p.a. range aimed at by the South African Reserve Bank. CPI is expected to be in the range 7-10% p.a. for 2016.

If people knew that in 2015 it would have been more profitable to rent a home and leave their money in the bank earning 6% p.a. than investing in a home at 1% p.a. growth, perhaps there would be fewer homes repossessed which causes financial hardships for many.

What we need is more transparency from commentators on home prices, especially high-commission estate agents and mortgage providers, as to where their information is derived from and how they calculate their estimates of average home price increases of 5-6%p.a. for 2015 as well as their projections for 2016. The man in the street needs accurate, transparent information about his most valuable asset – his home.

The first-time home buyer is usually uninformed about homeownership and accepts what they read. They are the most susceptible to losing their hard-earned savings in a property market where average home prices in nominal terms are likely to be going sideways, at best, for the 12-18 months,” says Berkowitz.

Please see table following – Ranking of Home Price Movement 2015 compared to 2014 (for various categories).

RANKING OF HOME PRICE MOVEMENT 2015 COMPARED TO 2014				
Rank	% Price Change per annum	Home Price Category	No of Sales and Transfers	Market Share %
1	2.0	R10 million plus	2,642	0.9
2	0.8	R2.5 million - R2.99 million	4,771	1.6
3	0.6	R3 million - R3.99 million	5,609	1.9
4	0.3	R500 000 - R999 000	76,736	26.6
5	0.2	R4 million - R4.99 million	2,646	0.9
6	0.2	R1 million - R1.49 million	33,392	11.6
7	0.0	R1.5 million - R1.99 million	17,551	6.1
8	-0.3	R2 million - R2.49 million	8,719	3
9	-0.4	R250 000 - R499 000	48,534	16.7
10	-1.3	R5 million - R9.99 million	3,858	1.3
11	-6.7	<R250 000	85,155	29.4
	Totals		289,613	100

Source: HomeBid Research/SAPTG