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PROPERTY BAROMETER

FNB House Price Index

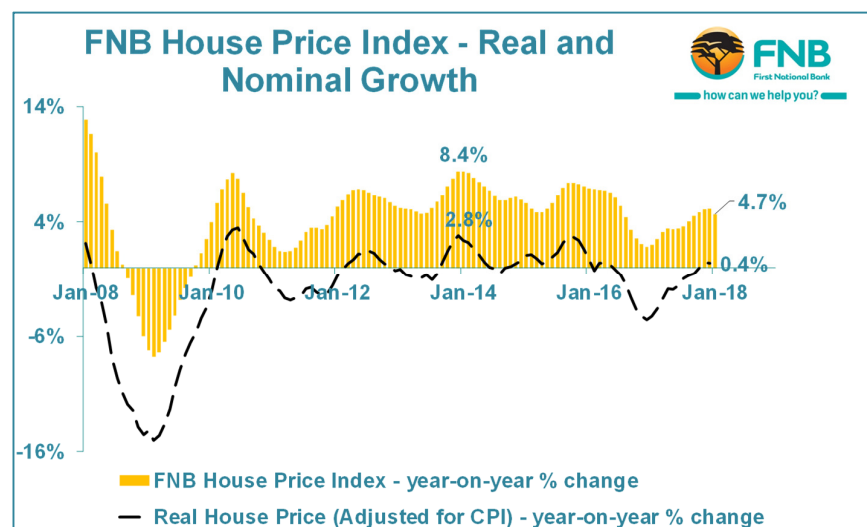
The FNB House Price Index's year-on-year growth slowed in January, after prior months of acceleration

In January 2018, the FNB House Price Index showed a slowing in year-on-year growth compared with the revised December 2017 rate. This comes after some prior months of accelerating year-on-year growth.

This keeps the index year-on-year growth rate in lower single digit territory at 4.7%. However, we remain of the expectation that mildly improved national sentiment early in 2018, along with the expectation of stable interest rates this year and improved economic growth, could see stronger average house price growth in 2018 compared with 2017's average rate.

KEY POINTS

- The FNB House Price Index for January 2017 rose by 4.7% year-on-year. This is a mild slowing on the revised 5.1% rate recorded for December 2017, after some prior months of growth acceleration.
- Examining house price growth on a month-on-month seasonally-adjusted basis, we see that, after a broad sideways movement in this growth rate during the 2nd half of 2017, there was a noticeable slowing from December to January, from 0.28% in December to 0.12% in January..
- In real terms, when adjusting for CPI (Consumer Price Index) inflation, the rate of house price growth was slightly positive to the tune of +0.4% year-on-year in December 2017 (January 2018 CPI data not yet available), after a revised +0.5% in November.
- The incidence of house price deflation on resales of homes has diminished in recent months to a lowly 8.6% of total home resales in December, from 11.5% at the start of 2017.



JANUARY FNB HOUSE PRICE INDEX FINDINGS

JANUARY AVERAGE HOUSE PRICE GROWTH

The FNB House Price Index for January 2018 showed a renewed deceleration, from a revised 5.1% in the previous month to 4.7% year-on-year. This mild deceleration comes after a gradual acceleration in year-on-year house price growth through much of 2017.

In real terms, when adjusting for CPI (Consumer Price Index) inflation, the rate of house price growth was in mild positive territory, having recorded a +0.4% year-on-year rise in December 2017 (January CPI data not yet available), slightly slower than the 0.5% rate in November.

This slight slowing in revised real price growth from November to December was due to an unchanged 5.1% revised nominal house price growth rate in December (compared to November), while CPI inflation accelerated slightly from 4.6% year-on-year in November to 4.7% in December.

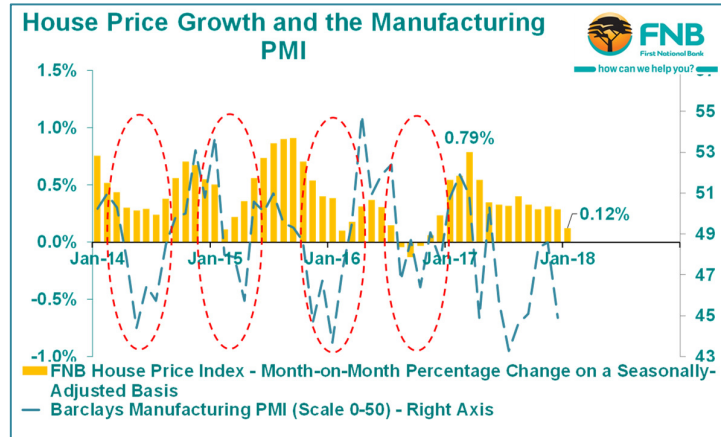
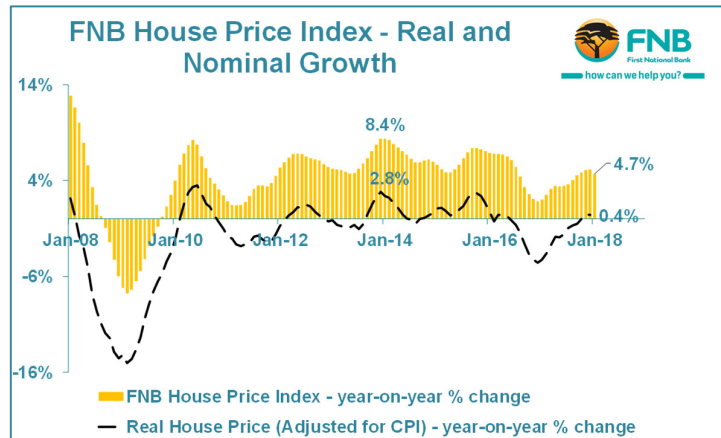
The average price of homes transacted in January was R1,116,444.

MONTH-ON-MONTH HOUSE PRICE GROWTH SLOWED IN JANUARY

Examining house price growth on a month-on-month seasonally-adjusted basis (a better recent momentum indicator than the year-on-year calculation) suggests that, while certain leading business cycle indicators point to near term economic improvement, we may not quite be there yet.

The Housing Market can often be a good leading indicator of economic conditions. Our revised month-on-month house price growth rate showed a broad sideways movement in growth during the 2nd half of 2017, but the January rate slowed noticeably from 0.28% in December to 0.12%.

The previous 4 noticeable “dips” in the Manufacturing Purchasing Managers’ Index (PMI), also a useful leading indicator of broader economy’s direction, have broadly correlated with the timing of the seasonally adjusted month-on-month dips in house price growth. It thus now remains to be seen whether this latest slowing in month-on-month house price growth will go further, given that the Manufacturing PMI has been very weak in recent months. Therefore, although sentiment in the country appears to be improved early in 2018, and we are more upbeat regarding economic prospects for 2018, as yet the housing market is showing no strong indication of strengthening.

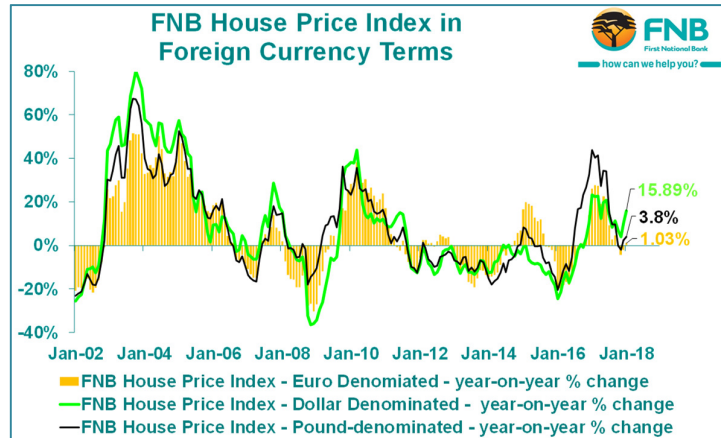


FNB HOUSE PRICE GROWTH IN FOREIGN CURRENCY TERMS

WHAT HOUSE PRICE GROWTH RATES ARE ASPIRANT FOREIGN BUYERS OF DOMESTIC PROPERTY SEEING?

The recent Rand strengthening, especially following the change of leadership at the ruling party's December 2017 elective conference, begins to show up in the January FNB House Price Index when denominated in certain major foreign currencies.

The Euro-denominated FNB House Price Index saw a year-on-year growth acceleration from -2.19% deflation in December to +1.03% in January, while the UK Pound-denominated Index accelerated further from +2.4% year-on-year in December to 3.8% in January. But the major global currency news last year was a significant US Dollar weakening, the result being seen in a strong +15.89% year-on-year growth rate in the US Dollar-denominated FNB House Price Index.



Recent Rand strength has thus started to lift the prices of domestic property for aspirant foreign buyers from certain key economies, especially those who operate in Dollars, given the added impact of Dollar weakness.

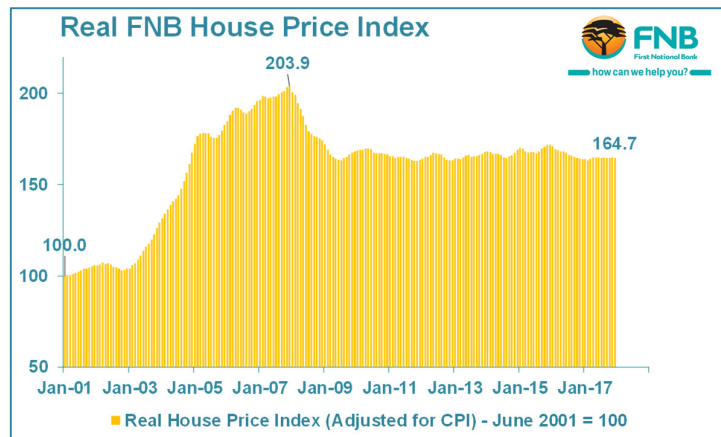
LONGER TERM REAL HOUSE PRICE PERFORMANCE

REAL HOUSE PRICE LEVELS

Examining the longer term real house price trends (house prices adjusted for CPI inflation), despite recent months of slight positive real house price growth, we see that the level as at December 2017 had lost -4.1% since a post-2008/9 recession high in December 2015.

Looking a bit further back to the all-time real house price peak at the end of 2007 (at the end of the pre-2008 housing boom period), on a cumulative basis real house prices were -19.2% down on that high as at December 2017.

However, looking back further, despite a mediocre performance in recent years, the average real price currently remains a massive 63.8% above the end-2000 level, 17 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 high by historic standards.



In nominal terms, when not adjusting for CPI inflation, the average house price in January 2018 was 323.3% above the end-2000 level. By comparison, consumer goods and services prices, as measured by the CPI, were only 158.2% higher over virtually the same period (up to December 2017 due to January CPI data not yet available).

THE EXTENT OF HOUSE PRICE DEFLATION IN THE MARKET

HOW PREVALENT IS HOME RE-SALES PRICE DEFLATION?

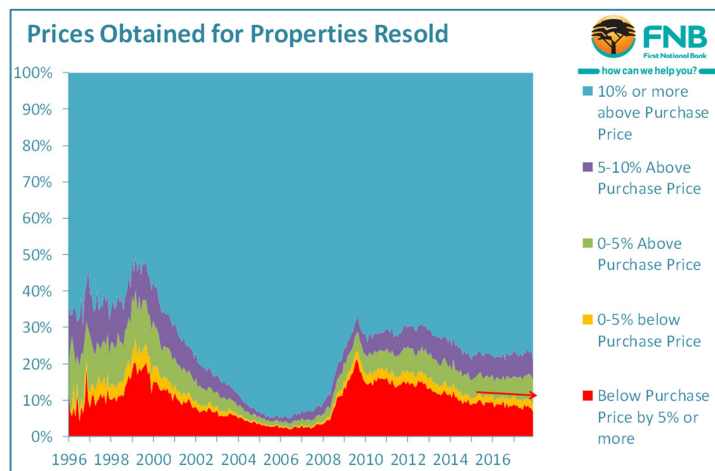
We also analyse house prices in order to view the magnitude of house price resales deflation vs inflation in the housing market. At any given time, there is always a certain amount of resales deflation within the overall market. By this we mean homes being resold at prices below that which they were previously purchased for.

In such times like the present when the market is weak and average house price inflation is low, it would be realistic perhaps to expect a higher percentage of homes being resold at deflated prices, and vice versa in stronger market times.

The causes of price deflation when reselling can vary:

- Genuine market price deflation can be the cause in weak economic or rising interest rate times, such as in 2008/9, or a specific area can fall from favour and even go into decay.
- A home may have originally been purchased at an “incorrectly” high price which was above the true market value at the time. Establishing the true market price is tough in a market where each home’s characteristics differs in some way from the next.
- Financial stress of the owner can lead to a deterioration in the property due to lack of maintenance and upkeep., or can cause a very hasty sale at below “market value”.

We use deeds data for properties purchased and sold by individuals (“Natural persons”) for these estimates.



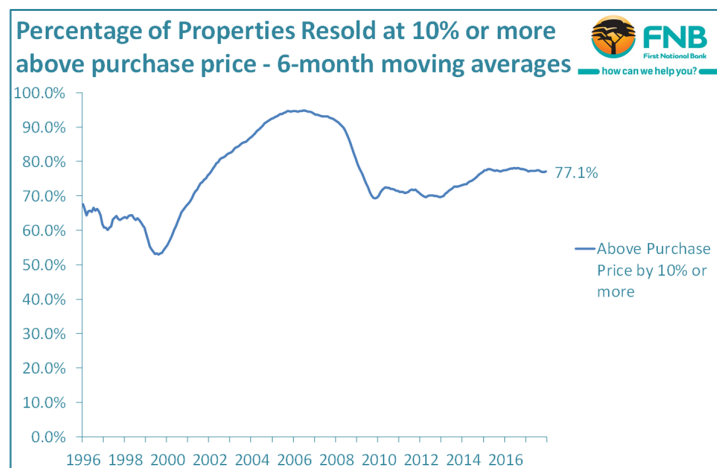
The incidence of re-sales price deflation remains moderate, and the overall incidence of such price deflation expressed as a percentage of total sales has declined in recent months.

From 10.7% of total sales as at September 2017, the estimated level of resale price deflation declined to 8.6% by December (having started 2017 at a higher 11.5%)

Therefore, the incidence of resale price deflation lessened broadly speaking through 2017, which perhaps reflects that slight acceleration through 2017 in the year-on-year growth rate in the FNB House Price Index.

The December level of 8.6% remains very low compared to the 23.4% “peak-of-crisis” level of September 2009.

We delve a bit deeper, however, into the various “bands” of resale price deflation/inflation.

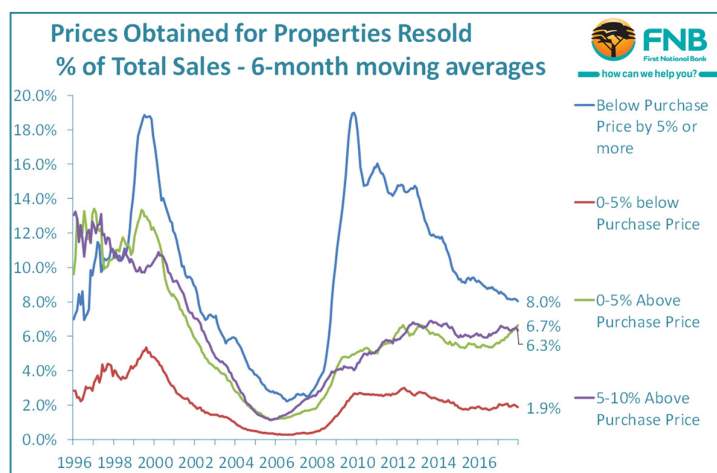


In order to do this, we smooth the individual price inflation/deflation “bands” that we have created, by using 6-month moving averages.

Firstly, what we see is that the percentage of homes being resold for “10% or more” above purchase price has begun to decline slightly, from a post-2008/9 recession high of 78.1% for the 6 months to June 2016 to 77.1% for the 6 months to December 2017.

Homes resold at 5-10% above purchase price have also seen a very small decrease as a percentage of total in 2017, from a high of 6.6% for the 6 months to February 2017 to 6.3% for the 6 months to December 2017.

There has by contrast, been a noticeable increase in the percentage of homes resold at 0-5% above original purchase price, from 5.6% of total sales for the 6 months to January 2017, to 6.7% for the 6 months to December 2017.



This translates into a small decline in both categories of resales price deflation over 2017. From 8.5% of total sales for the 6 months to January 2017, homes resold between 0% and 95% of previous purchase price declined to 8% of total sales for the 6 months to December 2017, while those reselling at 0%-5% below previous purchase price declined from 2.1% of total sales for the 6 months to January 2017 to 1.9% for the 6 months to December.

Therefore, in 2007, we did not see any signs of increase in the incidence of resales price deflation, despite low average house price growth.

To the contrary, some mild improvement (diminishing in the incidence of resales deflation) actually took place.

CONCLUSION

A mild slowing in year-on-year house price growth at the start of 2018, we believe, is not yet reflective of certain positive economic developments which appear to be taking place. Economic growth had already emerged from last summer’s recession in the winter quarters of 2017, and the Leading Business Cycle Indicators of both the SARB and OECD have been pointing to possibly improved economic growth in the near term.

In addition, the change in leadership in the ruling party in December appears to have been seen in a positive light by many, assisting in a significant improvement in investor sentiment and indeed the Rand of late.

We would anticipate that a significantly improved national mood, along with signs of strong economic growth to come, which would in turn support better employment and Household Disposable Income growth, should lead to some strengthening in residential demand and mildly stronger average house price growth this year.

The stronger Rand, should it be sustained, also has implications for inflation (lowering imported goods prices), and is supportive of our FNB expectation of either sideways movement in interest rates through 2018, or even a possible interest rate cut.

The FNB forecast for interest rates is for an unchanged Repo and Prime Rate through 2018, Prime expected to remain at 10.25%.

For economic growth, after an estimated 0.9% in 2017, the forecast is for a slightly higher 1.5% in 2018.

These forecasts, coupled with a more positive sentiment in the country, which we believe will feed into Consumer Confidence levels too, are expected to strengthen the housing market mildly in 2018, producing average house price growth in the 5-6% range for the year as a whole, compared to a revised 3.8% for 2017 as a whole.

KEY RATIOS DERIVED FROM THE FNB HOUSE PRICE INDEX

HOUSE PRICE BOND INSTALMENT TREND

In such a credit dependent market, it is important to understand what the rate of change in the monthly bond instalment is, given changes in both house prices and mortgage lending rates.

Using a Prime Rate series, along with Mortgage Originator Ooba's time series for Mortgage Loans' Average Differential from Prime, we calculate an "average mortgage lending rate and apply it to our average house price series to obtain an average monthly bond instalment estimate on a new 100% bond.

The stalling in interest rate hiking since early-2016, and then a subsequent lone interest rate cut in July 2017, has led to a slow year-on-year rate of increase in the average priced home instalment value of late, to the tune of 1.9% in January 2018, having slowed all the way from a high of 17.5% year-on-year in April 2016.

In real terms, adjusting for CPI inflation, the December 2017 bond instalment rate of change was in decline to the tune of -2.3% (January CPI data not yet available).

The rate of increase in this new bond instalment on the average priced house is also likely to have been slower than the average wage or disposable income inflation rate, thus likely translating into improvement in national average bonded home affordability.

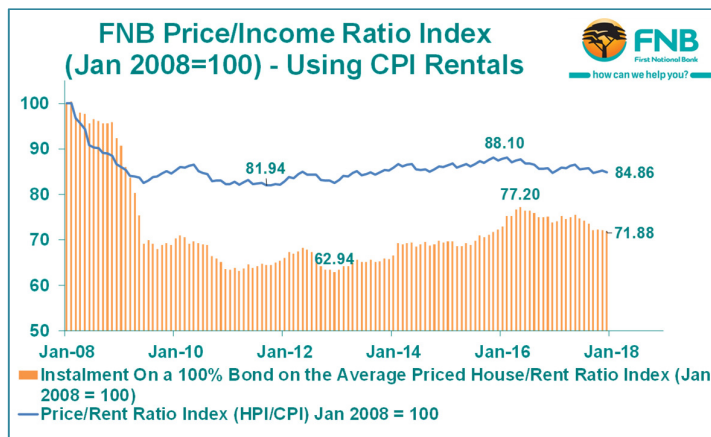
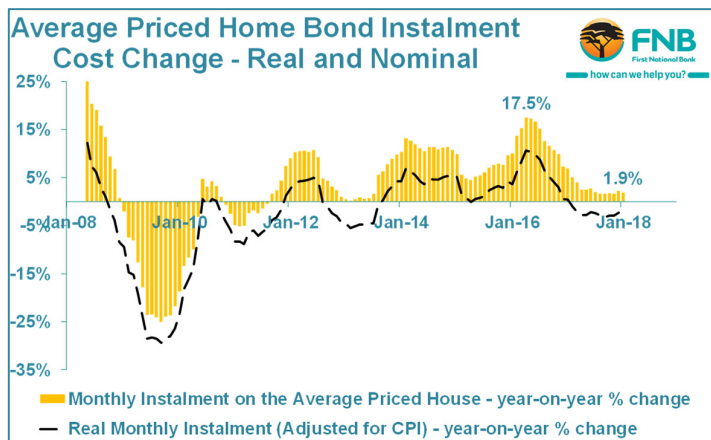
PRICE-RENT RATIO

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, contributing at some stage into a drop in home buying and a fall in house prices.

House price booms, or strong market periods at least, typically take this ratio higher.

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



Through 2016 and 2017, some gradual progress in lowering this Price-Rent Ratio has been made.

From a multi-year high of 88.1 reached in February 2016, we have seen a gradual decline in the index to 84.86 by December 2017, a -3.7% decline. This reflects a period in which average house price growth has mildly underperformed rental inflation (as per StatsSA CPI Rental estimates). The Price-Rent Ratio Index is now -15.14% down on January 2008, which reflects a significant cumulative correction to date since the end of the pre-2008 housing market bubble.

The other important ratio, i.e. the Instalment on a 100% bond on the average-priced house/Rent Ratio Index, is significantly lower than the Price-Rent Ratio Index (when using January 2008 as the base month), at a level of 71.88 as at December 2017. This is due to the added downward pressure from interest rates having been kept far lower than 2008 levels, Prime rate having peaked at 15.5% in mid-2008, and today being at only 10.25%. Low interest rates in recent years have thus assisted in keeping the home buying option significantly more attractive relative to the rental option compared to what was the case in 2008, despite some mild rate hiking between 2014 and 2016.

REAL ALTERNATIVE PRIME RATE AND POTENTIAL FOR A SPECULATORS' MARKET

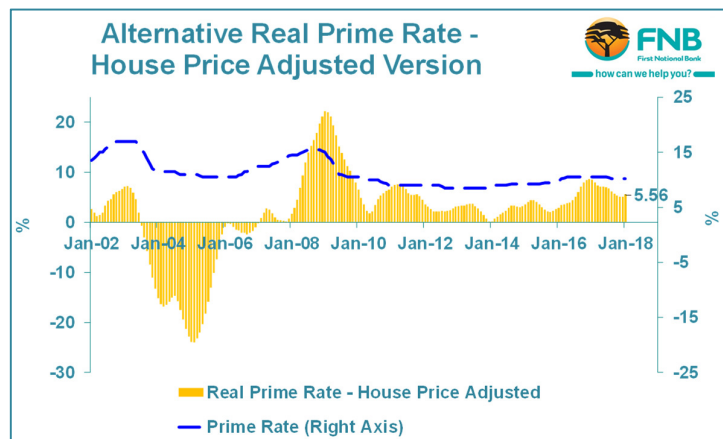
In order to create a “speculator’s paradise” in residential property, it is important to have price growth at a percentage significantly faster than the percentage of the annual interest rate charged on a mortgage loan.

Such an environment could 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 speculator’s paradise.

To monitor this, we calculate a 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 still very much the case in January 2018, where the Real Alternative Prime Rate was still a strongly positive 6.56%.

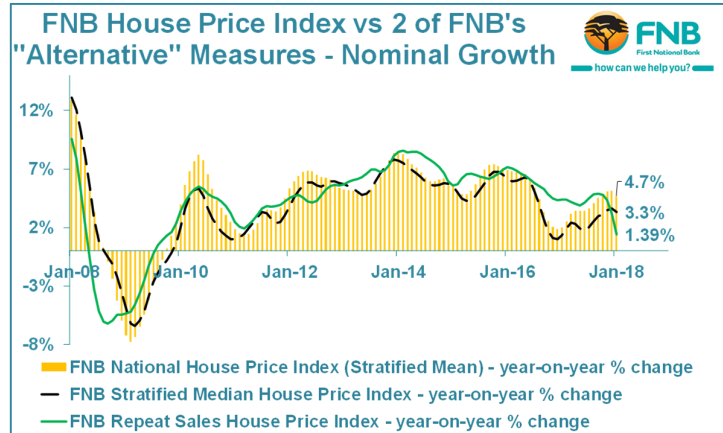
We thus believe the SARB’s monetary policy stance to be appropriate from a residential market health point of view.



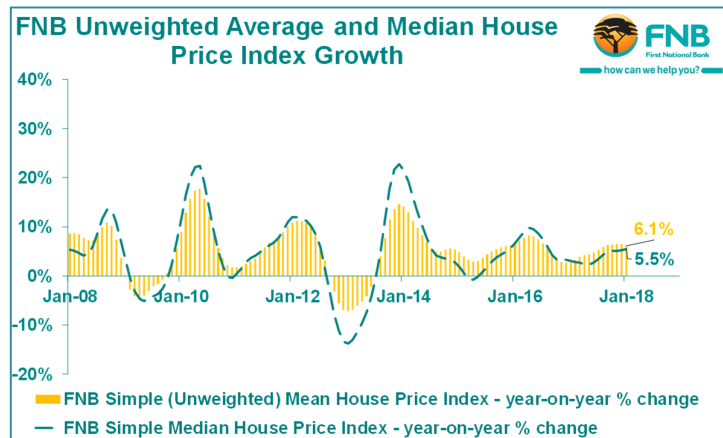
WHAT FNB'S ALTERNATIVE HOUSE PRICE INDEX MEASURES SAY

Given that house price statistics and indices are never an exact science, we often like to test our main house price index against our alternative house price index methodologies. Of late, 4 of the 5 of the monthly FNB National House Price Indices point to single-digit house price growth below 5%, and 4 out of 5 saw slower year-on-year growth in January compared with December 2017.

Whereas we term our main house price index a "stratified mean", where sub-segments of the index are averages with their weights fixed in the overall index, our FNB Stratified Median House Price Index is the average of the sub-segments' median prices. The Stratified Median House Price Index showed slightly slower (than the "official" index) house price growth of 3.3% in January, while our FNB Repeat Sales House Price Index showed 1.4% growth.



The other 2 indices, i.e. the "Simple" (i.e. unweighted) Mean and "Simple" Median indices showed 6.1% and 5.5% year-on-year growth respectively. The "Simple" Mean Index is thus the only one showing higher than 5% price growth, while the "Simple" Median Index is the only one to have seen slight acceleration in year-on-year growth from the prior month.



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		Jul-05	218.0	26.3%	Jan-10	284.6	4.0%	Jul-14	356.21	6.3%	
Feb-01	100.7		Aug-05	218.1	23.5%	Feb-10	287.2	5.6%	Aug-14	356.75	5.9%	
Mar-01	101.4		Sep-05	219.1	20.6%	Mar-10	289.6	6.8%	Sep-14	358.59	5.9%	
Apr-01	102.4		Oct-05	221.3	17.9%	Apr-10	291.2	7.7%	Oct-14	361.18	6.1%	
May-01	103.6		Nov-05	224.1	15.1%	May-10	292.0	8.2%	Nov-14	363.91	6.2%	
Jun-01	104.7		Dec-05	227.8	13.0%	Jun-10	291.4	7.8%	Dec-14	366.22	6.0%	
Jul-01	105.4		Jan-06	232.0	11.4%	Jul-10	290.0	6.5%	Jan-15	368.15	5.6%	
Aug-01	106.0	9.2%	Feb-06	236.6	10.7%	Aug-10	289.3	5.3%	Feb-15	369.68	5.1%	
Sep-01	106.5	8.9%	Mar-06	240.8	10.8%	Sep-10	289.6	4.3%	Mar-15	371.21	4.8%	
Oct-01	107.1	8.9%	Apr-06	244.0	11.4%	Oct-10	290.0	3.7%	Apr-15	372.86	4.8%	
Nov-01	107.9	9.3%	May-06	245.5	12.0%	Nov-10	289.9	3.1%	May-15	374.63	5.2%	
Dec-01	109.3	10.1%	Jun-06	245.9	12.5%	Dec-10	289.7	2.4%	Jun-15	376.52	5.7%	
Jan-02	110.9	10.9%	Jul-06	246.4	13.0%	Jan-11	289.9	1.9%	Jul-15	378.82	6.3%	
Feb-02	112.9	12.1%	Aug-06	247.6	13.5%	Feb-11	291.5	1.5%	Aug-15	381.51	6.9%	
Mar-02	114.8	13.2%	Sep-06	249.6	13.9%	Mar-11	293.6	1.4%	Sep-15	384.97	7.4%	
Apr-02	116.2	13.6%	Oct-06	252.0	13.8%	Apr-11	295.5	1.5%	Oct-15	387.89	7.4%	
May-02	117.1	13.1%	Nov-06	254.8	13.7%	May-11	297.2	1.8%	Nov-15	390.25	7.2%	
Jun-02	117.5	12.2%	Dec-06	258.2	13.3%	Jun-11	298.3	2.4%	Dec-15	392.03	7.0%	
Jul-02	117.7	11.7%	Jan-07	261.4	12.7%	Jul-11	299.1	3.1%	Jan-16	393.49	6.9%	
Aug-02	117.9	11.3%	Feb-07	264.1	11.6%	Aug-11	299.5	3.5%	Feb-16	394.83	6.8%	
Sep-02	118.2	11.0%	Mar-07	266.1	10.5%	Sep-11	299.6	3.5%	Mar-16	396.26	6.7%	
Oct-02	118.8	10.9%	Apr-07	267.9	9.8%	Oct-11	299.8	3.4%	Apr-16	397.89	6.7%	
Nov-02	119.5	10.7%	May-07	270.1	10.0%	Nov-11	300.7	3.7%	May-16	399.13	6.5%	
Dec-02	120.5	10.3%	Jun-07	273.1	11.1%	Dec-11	302.6	4.5%	Jun-16	399.57	6.1%	
Jan-03	121.9	9.9%	Jul-07	276.1	12.0%	Jan-12	305.5	5.4%	Jul-16	399.24	5.4%	
Feb-03	123.9	9.7%	Aug-07	279.0	12.7%	Feb-12	308.8	5.9%	Aug-16	398.38	4.4%	
Mar-03	126.3	10.0%	Sep-07	282.2	13.1%	Mar-12	312.4	6.4%	Sep-16	397.76	3.3%	
Apr-03	129.0	11.0%	Oct-07	285.9	13.5%	Apr-12	315.5	6.8%	Oct-16	397.83	2.6%	
May-03	131.6	12.3%	Nov-07	290.0	13.8%	May-12	317.6	6.9%	Nov-16	398.35	2.1%	
Jun-03	134.1	14.2%	Dec-07	293.3	13.6%	Jun-12	318.5	6.8%	Dec-16	399.38	1.9%	
Jul-03	136.8	16.2%	Jan-08	295.0	12.8%	Jul-12	318.6	6.5%	Jan-17	401.39	2.0%	
Aug-03	139.1	17.9%	Feb-08	294.9	11.6%	Aug-12	318.4	6.3%	Feb-17	404.72	2.5%	
Sep-03	141.3	19.6%	Mar-08	292.7	10.0%	Sep-12	318.3	6.2%	Mar-17	408.77	3.2%	
Oct-03	144.0	21.3%	Apr-08	289.2	7.9%	Oct-12	318.0	6.1%	Apr-17	411.47	3.4%	
Nov-03	147.1	23.1%	May-08	285.3	5.6%	Nov-12	318.0	5.7%	May-17	412.70	3.4%	
Dec-03	150.7	25.0%	Jun-08	282.1	3.3%	Dec-12	318.9	5.4%	Jun-17	413.30	3.4%	
Jan-04	154.4	26.7%	Jul-08	280.1	1.5%	Jan-13	321.5	5.3%	Jul-17	413.67	3.6%	
Feb-04	158.3	27.8%	Aug-08	279.8	0.3%	Feb-13	324.8	5.2%	Aug-17	414.63	4.1%	
Mar-04	162.0	28.3%	Sep-08	279.7	-0.9%	Mar-13	328.4	5.1%	Sep-17	415.79	4.5%	
Apr-04	165.1	27.9%	Oct-08	279.1	-2.4%	Apr-13	331.1	4.9%	Oct-17	417.11	4.8%	
May-04	167.5	27.3%	Nov-08	277.7	-4.3%	May-13	332.7	4.8%	Nov-17	418.66	5.1%	
Jun-04	169.8	26.6%	Dec-08	275.8	-6.0%	Jun-13	333.9	4.8%	Dec-17	419.89	5.1%	
Jul-04	172.5	26.2%	Jan-09	273.7	-7.2%	Jul-13	335.2	5.2%	Jan-18	420.22	4.7%	
Aug-04	176.6	27.0%	Feb-09	271.9	-7.8%	Aug-13	336.8	5.8%				
Sep-04	181.7	28.6%	Mar-09	271.1	-7.4%	Sep-13	338.6	6.4%				
Oct-04	187.8	30.4%	Apr-09	270.5	-6.5%	Oct-13	340.5	7.1%				
Nov-04	194.7	32.3%	May-09	269.8	-5.4%	Nov-13	342.6	7.8%				
Dec-04	201.7	33.9%	Jun-09	270.4	-4.2%	Dec-13	345.6	8.3%				
Jan-05	208.2	34.9%	Jul-09	272.2	-2.9%	Jan-14	348.5	8.4%				
Feb-05	213.7	34.9%	Aug-09	274.8	-1.8%	Feb-14	351.6	8.2%				
Mar-05	217.4	34.2%	Sep-09	277.5	-0.8%	Mar-14	354.1	7.8%				
Apr-05	219.1	32.7%	Oct-09	279.7	0.2%	Apr-14	355.6	7.4%				
May-05	219.2	30.8%	Nov-09	281.3	1.3%	May-14	356.3	7.1%				
Jun-05	218.6	28.8%	Dec-09	282.8	2.5%	Jun-14	356.3	6.7%				

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.

A WORD OF CAUTION: Caution should be exercised when using the FNB House Price Index for any type of home “valuation” exercise. A simplistic approach sometimes used to acquiring a rough valuation for a residential property, which may last have been transacted a number of years ago, is to take its previous transaction value and date, and to apply the cumulative inflation rate of the House Price Index to that price to ascertain what its value should be at the present time.

This approach can be hazardous for 3 reasons:

- Firstly, the area in which that home is located may not have seen its average price inflation being the same as the national average (with the FNB House Price Index merely being a national average)
- Secondly, the home being “valued” may have changed in characteristics or condition since it was last transacted, causing its own value growth to be out of line with the market.
- Thirdly, if the home owner had bought the home previously at a value that was not market related (and getting the price “right” will always be an inexact science because each home is different from the next), when applying an average price index to update that valuation to the present day, one would be starting from an incorrect price base (at time of transaction), thus sustaining the “error”.