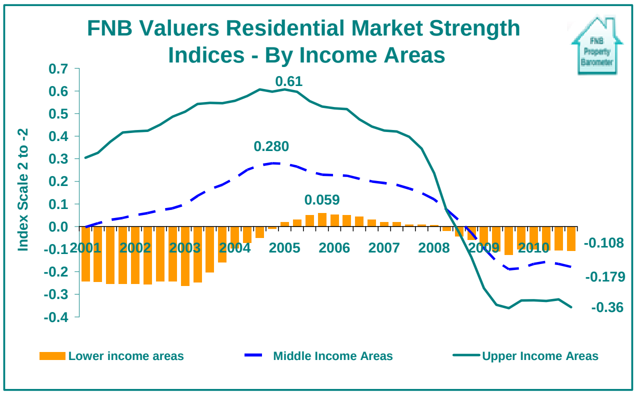
HOUSE PRICE TRENDS - MAJOR METRO AREA PRICE SEGMENTS AND HOLIDAY TOWNS

Former Black Townships appear to have outperformed the rest in 2010. Holiday towns continue to under-perform.

3 March 2011

In the currently tough financial times, it would stand to reason that the search for affordability in housing would be intensified. The FNB Estate Agent Survey over the past few years has supported this notion, pointing to a greater percentage of sellers selling in order to downscale due to financial pressure compared to those upgrading, suggesting a "downward flow" of a portion of demand to the lower priced end of the market. The agent surveys also suggested that the so-called Black population group mildly increased its share of total buying in 2010. This comes as little surprise given that the Bureau of Market Research estimated back in 2009 that Black households below the income levels of R500,000 per annum had significantly lower levels of indebtedness relative to their counterparts in the other 3 race groups, allowing greater scope for borrowing growth within this group. And, being the group with the lowest per capita income, the Black group's residential demand is biased towards the lower priced end.

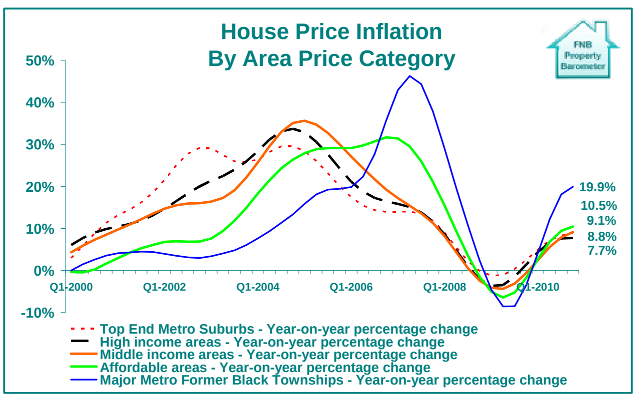


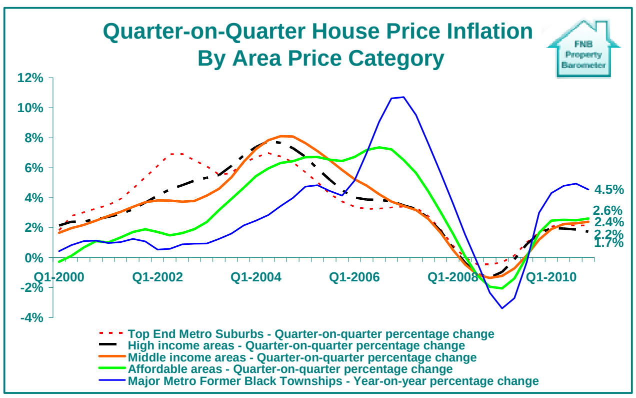
The above factors would suggest that the lower end of the market should have outperformed the higher priced end during the 2009/10 "mini-recovery". In addition, according to the FNB Valuers' Market Strength Indices, those FNB valuers operating in "Lower Income Areas" report the smallest imbalance between demand and supply of the three income segments, namely "Lower Income", "Middle Income" and "Upper Income" areas. In other words, the lower priced areas would seem to be less oversupplied than the higher priced areas, on average, according to FNB's valuers as a group.

Did all of these factors translate into a superior price growth performance for the lower end of the market? Our latest estimates, using Deeds Office data for all property transactions by individuals, would suggest that this was the case, and that the former Black townships around the country's 6 major metros outperformed the rest of the major metro area value bands in 2010. This may not necessarily mean wonderfully strong demand at the lower end compared to the boom years, as the lower income end is arguably more credit dependent and credit criteria remain tighter than a few years ago. But what superior price growth performance implies, at least, is a better balance between supply and demand in the lower priced echelons.

In year-on-year terms, the Major Metro Former Black Township House Price Index (average price = R258,334) showed a 19.9% increase in the average value of homes traded, in the 4th quarter of 2010. This was followed by the Affordable Area Index, which includes areas from all former race classifications (average price = R375,219) with growth of 10.5%. Next were the indices for so-called Middle Income Areas (average price = R730,064) with price growth of 9.1%, High Income Areas (average price = R1,105,750) increasing by 8.8%, and the Top End (average price = R1,908,986) performing weakest with an increase of 7.7%.

However, when calculating the price growth rates on a quarter-on-quarter basis, a better indicator of short term momentum, we are reminded that no segment can defy gravity. The Township index had peaked at the highest quarter-on-quarter growth rate of 4.9% quarter-on-quarter in the 3rd quarter of last year, and had begun to slow to 4.5% by the final quarter, with the positive impact of the rapid interest rate reductions up to August 2009 beginning to wear thin. One saw a broad flattening out of the other four segment indices in the 4th quarter as well, at lower levels than the Township Index growth peak.





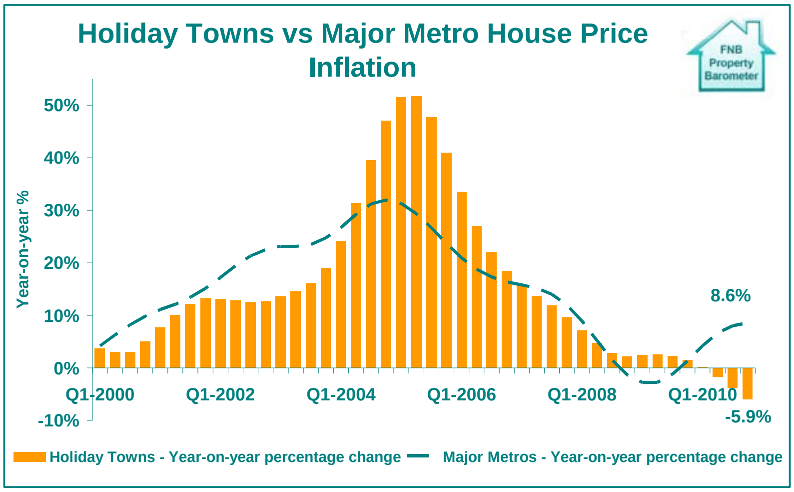
Data source: Deeds Office

Indices suggest that prices at the lower priced end, and townships especially, are more cyclical

While 2010 was a year in which the affordable end, and Townships in particular, appeared to outperform the higher priced segments in terms of price growth, in recent years this has not always been the case. The value band price indices suggest that the affordable segments are more cyclical than the higher segments, and their price performances were arguably worse affected during the 2008/9 recession slump. The affordable market is believed to be more credit dependent than the higher echelons, and the high interest rates up until late-2008 are believed to have been instrumental in township house price year-on-year decline bottoming at -8.5% in the 2nd and 3rd quarters of 2009, a significantly worse rate of decline at that stage than the higher-priced segments.

Therefore, while former Black Townships have performed well during their "normalization" process of the past decade, they must now be seen as exactly that - normal residential markets where prices can perform very well at times, but where price declines can occur during times of higher interest rates, a weak economy, and weak demand. They did, however, appear to outperform the higher priced segments in 2010.

Holiday towns remain weak



Data source: Deeds Office

In tough financial times, we have said before that the more essential primary residential buying is king, and the non-essential forms of buying, i.e. buy-to-let and holiday property buying, are very much on the backburner. This appears to be borne out in the comparison between house price performance in the major metro areas versus that of towns that we deem to be holiday towns. Whereas the 4th quarter average price growth in the major metro areas was 8.6% (although starting to flatten out), the Holiday Town Index found itself in year-on-year decline to the tune of -5.9%.

Given the non-essential nature of holiday buying, holiday towns are probably always destined to see more cyclicality in house prices, meaning that at the peak of the property boom, the Holiday Town Index showed a far higher price growth peak than the Major Metro House Price Index, but as of late it is vice versa.

Conclusion

In short, therefore, the major segment indices, as calculated from Deeds Office transactions by individuals in areas that we deem to be residential-dominant, reflect the tough financial times of the household sector. This means that, in 2010, the more affordable metro areas performed better than the higher-priced segments, with former Black Townships seemingly the best price growth performers. This also means that holiday-driven regions underperformed the major metros, where the more essential primary residential demand creates a more stable price performance.

Note: The area value band indices compiled above are done so by grouping areas based on their average value, and not by grouping individual properties. All of the above segment data is compiled using Deeds Office Data. Besides being a different sample to those time series where banks' own data are used, Deeds data also lags FNB's own data, and we therefore tend to see turning points in trends unfolding slightly later when applying deeds data. The above segment indices, therefore, are not entirely comparable with the FNB National House Price Index and other data series which make use of FNB data. In addition, while we attempt to minimize the inclusion of commercial property transactions in the sample through certain filters, including the use only of areas that we deem to residential-dominant as well as using transactions by individuals only, a small portion of the Deeds data used can be commercial transactions.

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