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3rd QUARTER 2012 FNB SEGMENT HOUSE PRICE REVIEW

SUMMARY – RELATIVE WINDOWS OF OPPORTUNITY APPEAR TO BE CLOSING, AND RELATIVE PERFORMANCES ALIGNING AS A RESULT

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The 3rd quarter of 2012 showed a general narrowing in the gaps in price growth performances between different segments of the housing market, it would appear, according to FNB housing data.

Over the past 4 years or so, since the end of the housing and economic boom, a financially pressured household sector has been searching hard for affordable options in the housing market. For a while, some “relatively” affordable options were available. Small sized homes were perceived as significantly better value for money than larger sized homes, and seeing better price growth as a result, while full title property appeared to offer better value for money after sectional title property’s price boom had outstripped that of full title back in the boom years.

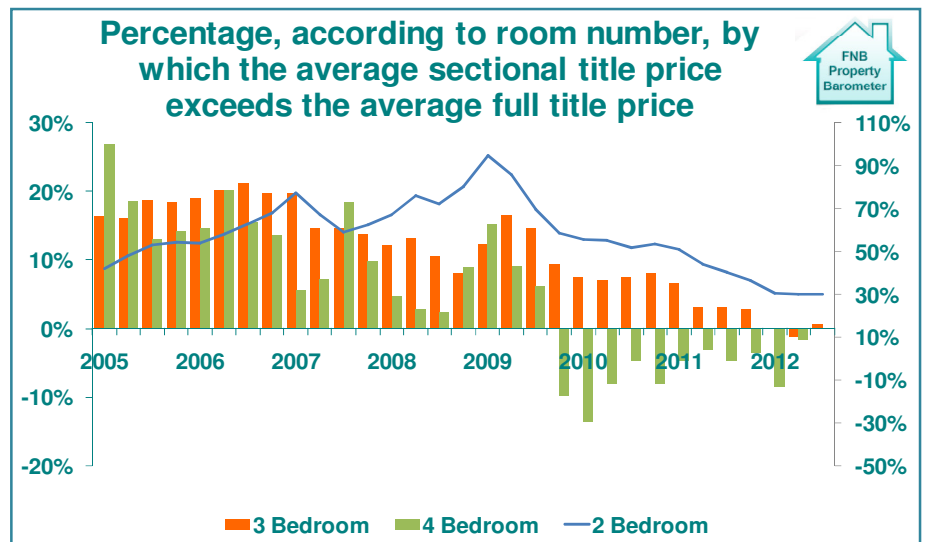
In the boom years prior to 2008, the Sectional Title market was arguably buoyed more by 1st time and buy-to-let buying than was the Full Title market. Those 2 sources of demand are more cyclical than established family demand, which in turn arguably plays a bigger role in the fortunes of the Full Title market, especially the 3 and 4 bedroom Full Title segments.

So, in the good times, 1st time and buy-to-let buyers came to the market in far greater numbers than in prior weaker times, and we believe that this drove the Sectional Title valuations to a bigger “boom-time overshoot” than was the case in the Full Title Market.

Therefore, at stages during the pre-2008 house price boom, the average price of a 3 bedroom sectional title home, for instance, was in excess of 20% higher than the average for a 3 bedroom full title home. The gap was still very significant as at 2009 just after the recession. However, thereafter this gap has steadily narrowed to a virtually insignificant 0.6%, as full title house price growth has exceeded sectional title price growth in recent years. As for other major segments classified by room number, the percentage by which the average sectional title 2 bedroom price has significantly reduced (although the 2 markets aren’t exactly comparable, with 2 bedroom full title being significantly more in the “Affordable Housing” market), while the 4 bedroom sectional title average values are back below average 4 bedroom full title values since late-2009.

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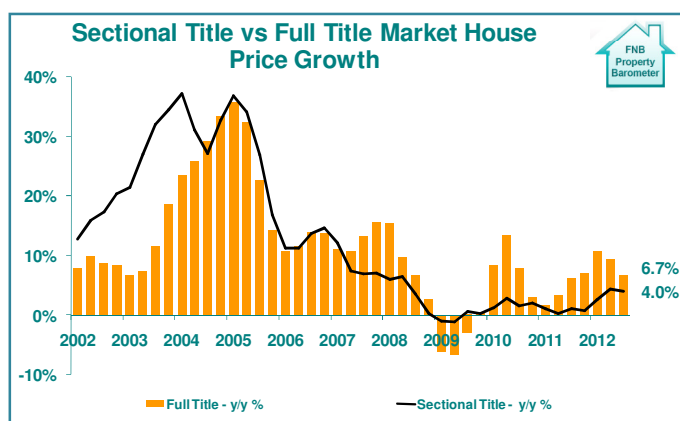


What does the move back towards narrower price differentials (“normalisation”) between comparable full and sectional title properties mean? It means that the Full Title market’s affordability advantage that was built up in the boom period has probably all but come to an end. No longer is there that much advantage, from a price affordability point of view, in buying a 3 bedroom Full Title home compared to a 3 bedroom Sectional Title home for instance. Granted, full title often offers a spaciousness advantage, while sectional title perhaps offers lower operating costs, so the two are never entirely comparable. But the average price gap in this segment has virtually disappeared as a result of superior Full Title house price growth over the past few years. As for other segments classified by room number, the percentage by which the average sectional title 2 bedroom price exceeds that of 2 bedroom full title has significantly reduced (although the 2 markets aren’t exactly comparable, with 2 bedroom full title being significantly more “Affordable Housing” developments), while the 4 bedroom sectional title average values are back below average 4 bedroom full title values since late-2009.

Therefore, it should come as little surprise that the average price growth rate of Full Title homes, at 6.7% year-on-year, no longer far exceeds the 4% growth for Sectional Title homes, as was the case a few quarters ago. In the near term, we would expect the various segments’ price growth rates to move increasingly nearer to each other, with relative affordability advantages having been reduced over the past few years. This is expected to be the case, too, when categorizing property by building size in square metre terms.

DETAILED PRICE TRENDS

As Full Title Segment house price growth slows at a more rapid rate than Sectional Title, the price growth gap between the 2 segments has been narrowing.



On a year-on-year basis, the Full Title Market segment’s price growth continued to outperform the Sectional Title Segment in the 3rd quarter of 2012. However, the gap between the 2 segments has diminished.

The year-on-year growth rate in the Full Title Price Index for the 3rd quarter was 6.7%, lower than the previous quarter’s revised 9.3%, while the Sectional Title Index’s growth de-celerated to 4%, compared to 4.4% revised rate in the previous quarter. Viewed on a quarter-on-quarter basis, however, the price growth differential between the 2 segments has been virtually eliminated, with Sectional Title showing -0.6% decline and Full Title -0.9% decline.

Could this suggest a possible end to a period, spanning from late-2009 to the present, in which price growth in the Full Title Segment generally outperformed that of the Sectional Title Segment?

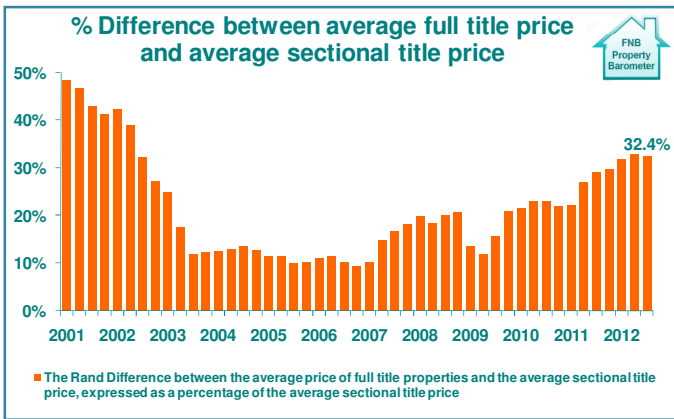
We have previously emphasised our view that the “suburban” 3 bedroom family market (the largest segment of the Full Title Market) is a very solid and stable component, because it was arguably less of a first time buyer and buy-to-let target during last decade’s boom than the Sectional Title Market. Surges in those highly cyclical buying components drove a huge price boom in the sectional title segment, leaving it arguably more “unrealistically priced” when the boom had ended.

In contrast, we believe that established family demand dominates especially the 3 bedroom Full Title segment, and this demand is more steady than 1st time buyer and buy-to-let demand through tougher economic times such as those of the past 4 years. This has helped the Full Title market in these tougher times.

In addition, although its price growth may be starting to slow, the 2 Bedroom Full Title market continues to support the price growth of the Full Title Segment. The 2-Bedroom Full Title Segment is believed to be driven heavily by the Affordable Housing Segment, which has been less oversupplied than the suburban markets in recent years, and has had better demand during the recent economic recovery years.

A further key factor that has perhaps been supporting higher price growth in the Full Title segment than in the Sectional Title segment has been greater affordability/value for money in the Full Title Segment. This is a function of Sectional Title’s greater “overshoot” in the boom years. While the average Full Title Home is higher priced than the average Sectional Title home, when comparing the prices by room number this has not been the case.

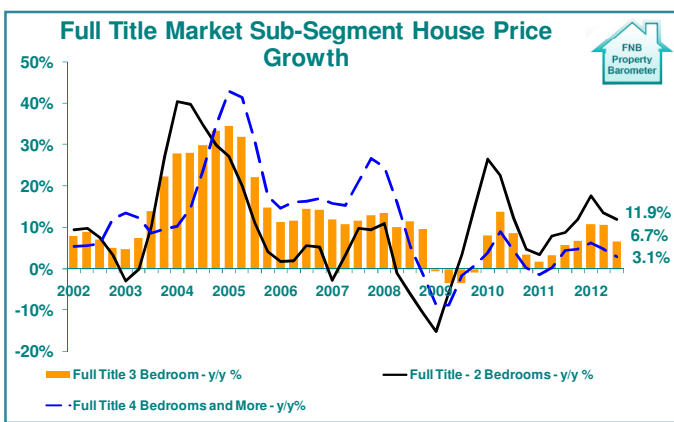
So, for instance, back in the 2nd quarter of 2009, just after the recession had ended, the average 3 bedroom sectional title home was R128,222 more expensive than the average 3 bedroom full title home, or 16.5% higher, according to FNB data. By the 3rd quarter of 2012, this gap was an insignificant 0.6%, or R6,096. Therefore, while relative price affordability may have been driving a slightly stronger Full Title Segment price growth rate in recent years, this is probably less and less the case as the affordability gap closes.



With the closing of the price growth gap between Full Title and Sectional Title, there was no further widening in the gap between the overall average full title price and the overall average sectional title value, with the latter now 32.4% above that of the sectional segment, slightly down from a 32.9% gap in the previous quarter. This is now significantly wider than the lowly 9.4% gap reached at the end of 2006, and we may have reached the end of the widening of the gap for the time being.

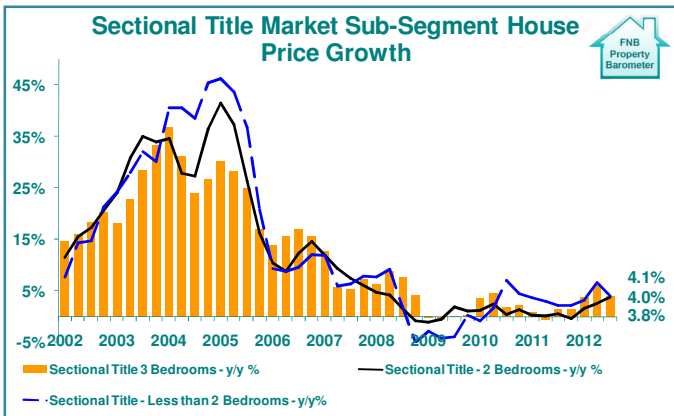
A word of caution is needed in interpreting this average price differential between the 2 segments. Their composition is quite different, with sectional title being dominated by 2 bedroom and smaller units while the Full Title segment is dominated by larger 3 bedroom units.

The 3 main Full Title Segments saw price growth slow in the 3rd quarter.



All of the 3 key sub-segments within the Full Title Market, i.e. the 2, 3, and “4 bedroom plus” sub-segments, showed mild declines in year-on-year price growth in the 3rd quarter of 2012. The 2 Bedroom sub-segment (average price = R500,201), saw year-on-year price growth of 11.9%, down from a revised 13.5% in the previous quarter. The major 3 Bedroom segment (average price = R982,906) showed year-on-year growth of 6.7%, down from a previous quarter’s 10.7%, while the 4 Bedroom and more Sub-Segment’s (average price = R1.584m) growth slowed mildly from 4.9% year-on-year in the previous quarter to 3.1% in the 3rd quarter of 2012.

2 of the 3 major sectional title sub-segments also showed a slower average price growth rate in the 3rd Quarter.

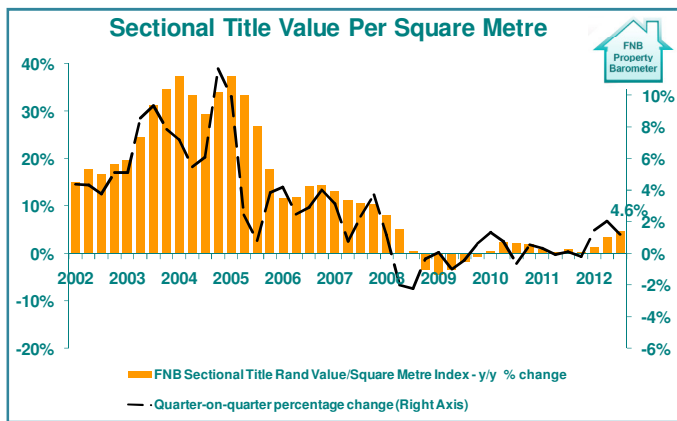


Within the Sectional Title Market, year-on-year price growth in the Less than 2 Bedroom sub-segment (average price = R488,049) slowed in the 3rd quarter from a previous rate of 6.6% to 4%, after some prior quarters’ acceleration. This segment’s mild acceleration earlier in the year may have been helped by young 1st time buyers, who have increased significantly in number in recent times. However, little in the way of “buyer panic or “buyer urgency” exists in the market at present to boost prices significantly.

Sectional Title sub-segment price growth continues to move in a very narrow range. The larger 2 Bedroom sub-segment (average price = R650,485) showed an increase in price growth from a revised 2.6% in the 2nd quarter to 3.8% year-on-year previous in the 3rd quarter, while the 3 Bedroom

Segment, (average price = R989,003) saw a slightly slower 4.1% year-on-year price growth rate in the 3rd quarter, down from a previous 6.1%.

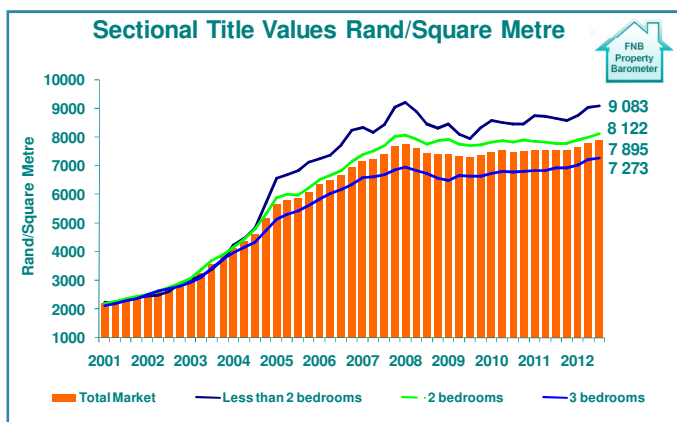
Sectional Title price trends on a per square metre basis



The FNB Sectional Title Value Per Square Metre Index, which estimates the average value of sectional title property on a per square metre basis, is an attempt to reduce the effect of a change in the size composition of property transactions on property indices over time, thereby getting a more accurate reflection of true property value trends in this property category. The index is a fixed-weighted average of the 4 Sectional Title market sub-segments, i.e. the “Less than 2 Bedroom Segment, the 2 Bedroom Segment, the 3 Bedroom Segment and the 4 Bedroom Segment”. The 2 Bedroom sub-segment is by far the largest of the Sectional Title Market, accounting for almost half of the overall sectional title index.

On a per square metre basis, the average value of sectional title properties rose by 4.6%, which is higher than the

previous quarter’s revised 3.5%.



Segmenting the Sectional Title Market into its 3 key segments, the smaller the size in terms of bedroom number the higher the per square metre value. The “Less than 2 Bedroom Segment” showed an average value of R9,083/square metre in the 3rd quarter of 2012, the 2 Bedroom Segment averaged R8,124/square metre, and the 3 Bedroom Segment R7,273/square metre. The overall average value per square metre was R7,895.

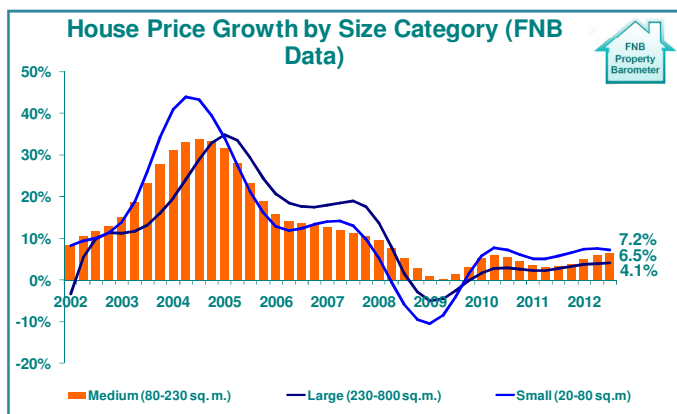
These values mean that the sectional title market has more-or-less clawed back to nominal per square metre values in line with the 1st quarter 2008 average, which was the time of the pre-recession real price peak. The “Less than 2 Bedroom” sub-segment was the most negatively affected during the 2008/9 slump, and even after a recent catch-up sees its revised average value/square metre value still -1.4% below the early-2008 peak. The 2 Bedroom sub-segment is now +0.8% up from the 1st quarter 2008 while the 3 Bedroom sub-segment is now higher to the tune of +4.6%.

The 2 and 3 bedroom sub-segments have lifted the overall Sectional Title per sq.m Index to 1.7% higher than its early-2008 peak. Just over 4 years later, therefore, the nominal per square metre value of sectional title units has just managed to re-coup its 2008/9 recession-time losses.

In real terms, though, adjusting for consumer price inflation, that implies an approximate -23% decline from the 1st quarter of 2008 to the 3rd quarter of 2012, and with average price growth below that of consumer price and

wage inflation, the real price “correction” continues.

Price Trends by Size of Home –Smaller still Better



With financial pressure still significant, and the search for affordability still on for many, smaller building size has been a little more popular than the larger ones in recent years, it would appear. An increasing number of these homes would probably be found in so-called “affordable housing developments”. The smaller size properties continued to perform slightly better in terms of price growth in the 3rd quarter. Of the 3 size categories, the 20-80 square metre Small Sized category (average price = R453,992) continued to show the best year-on-year price growth of +7.2% in the

3rd quarter, although this does represent a slight slowing from 7.6% in the previous quarter. This segment's growth has outperformed the other 2 since the end of 2009, influenced strongly by the Affordable Housing sector. However, the price growth gap between the sizes is narrowing, with the other two larger segments having shown some acceleration in year-on-year price growth. The 80-230 square metre Medium Size category (average price = R909,859) rose by 6.5% in the 3rd quarter, and the 230-800 square metre Large Size category (average price = R1.658m) saw price growth rise slightly to 4.1%.

CONCLUDING REMARKS

In the 3rd quarter of 2012, a broad slowing in year-on-year price growth was witnessed in most segments of the market according to FNB housing data. But that is probably not surprising, given that the overall FNB House Price Index has been showing slowing year-on-year growth recently. What has perhaps gone a little less noticed, however, is the elimination or reduction in certain price/affordability gaps between the comparable Full Title and Sectional Title sub-segments in recent times.

This means that the Full Title market's affordability advantage, built up in the boom period, has probably all but come to an end. No longer is there that much of a relative advantage, from a price affordability point of view, in buying a 3 bedroom Full Title home compared to a 3 bedroom Sectional Title home for instance. Admittedly, the 2 are not exactly comparable, with full title often offering a spaciousness advantage, while sectional title perhaps offers lower operating costs. But the average price gap in this segment has virtually disappeared as a result of superior Full Title house price growth over the past few years. As for other segments classified by room number, the percentage by which the average sectional title 2 bedroom price exceeds that of 2 bedroom full title has significantly reduced (although the 2 markets aren't exactly comparable, with 2 bedroom full title being significantly more "Affordable Housing" developments), while the 4 bedroom sectional title average values are back below average 4 bedroom full title values since late-2009.

Therefore, in the near term we would expect the various segments' price growth rates to move increasingly nearer to each other, with relative affordability advantages having been reduced over the past few years. This is expected to be the case, too, when categorizing property by building size in square metre terms.

AVERAGE HOUSE PRICE BY MAJOR SEGMENT

	2004	2005	2006	2007	2008	2009	2010	2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012
FULL TITLE SEGMENT												
Full Title Average Price (Rand)	467 592	587 250	660 593	744 423	806 790	775 990	838 547	876 698	896 880	934 488	957 996	949 024
- year-on-year % change	28.2%	25.6%	12.5%	12.7%	8.4%	-3.8%	8.1%	4.5%	7.0%	10.6%	9.3%	6.7%
- quarter-on-quarter % change									0.9%	4.2%	2.5%	-0.9%
2 Bedroom (Rand)	290 377	334 320	346 403	363 562	356 021	352 417	408 477	441 584	459 666	493 277	499 700	500 201
- year-on-year % change	35.8%	15.1%	3.6%	5.0%	-2.1%	-1.0%	15.9%	8.1%	12.0%	17.6%	13.5%	11.9%
- quarter-on-quarter % change									2.8%	7.3%	1.3%	0.1%
3 Bedroom (Rand)	468 458	586 815	663 001	741 684	824 308	807 522	875 450	914 132	932 364	983 114	1 013 853	982 907
- year-on-year % change	30.0%	25.3%	13.0%	11.9%	11.1%	-2.0%	8.4%	4.4%	6.8%	10.9%	10.7%	6.7%
- quarter-on-quarter % change									1.2%	5.4%	3.1%	-3.1%
4 Bedrooms and More (Rand)	724 100	958 384	1 113 031	1 334 570	1 476 500	1 408 477	1 471 027	1 501 203	1 532 695	1 535 181	1 564 344	1 584 418
- year-on-year % change	21.2%	32.4%	16.1%	19.9%	10.6%	-4.6%	4.4%	2.1%	4.8%	6.4%	4.9%	3.1%
- quarter-on-quarter % change									-0.3%	0.2%	1.9%	1.3%
SECTIONAL TITLE SEGMENT AVERAGE HOUSE PRICE												
Sectional Title Average House Price (Rand)	414 008	530 266	597 890	647 586	673 753	671 712	684 818	690 516	691 591	708 836	720 947	716 728
- year-on-year % change	31.9%	28.1%	12.8%	8.3%	4.0%	-0.3%	2.0%	0.8%	0.8%	2.6%	4.4%	4.0%
- quarter-on-quarter % change									0.4%	2.5%	1.7%	-0.6%
Less than 2 Bedroom (Rand)	273 903	372 196	409 344	442 088	456 824	444 615	458 028	470 409	471 766	488 753	498 337	488 050
- year-on-year % change	41.4%	35.9%	10.0%	8.0%	3.3%	-2.7%	3.0%	2.7%	2.1%	3.3%	6.6%	4.0%
- quarter-on-quarter % change									0.6%	3.6%	2.0%	-2.1%
2 Bedroom (Rand)	385 285	498 631	556 305	604 066	618 477	620 386	628 708	629 675	626 336	642 306	649 825	650 485
- year-on-year % change	31.6%	29.4%	11.6%	8.6%	2.4%	0.3%	1.3%	0.2%	-0.4%	1.6%	2.6%	3.8%
- quarter-on-quarter % change									0.0%	2.5%	1.2%	0.1%
3 Bedroom (Rand)	552 137	688 949	795 982	857 462	914 733	913 810	941 485	949 336	958 254	981 259	1 000 829	989 003
- year-on-year % change	29.3%	24.8%	15.5%	7.7%	6.7%	-0.1%	3.0%	0.8%	1.5%	3.8%	6.1%	4.1%
- quarter-on-quarter % change									0.9%	2.4%	2.0%	-1.2%
SECTIONAL TITLE PER SQUARE METRE												
Sectional Title Average Price (Rand/square metre)	4 564	5 854	6 617	7 368	7 556	7 362	7 494	7 538	7 531	7 643	7 801	7 895
- year-on-year % change	33.4%	28.3%	13.0%	11.3%	2.6%	-2.6%	1.8%	0.6%	0.2%	1.4%	3.5%	4.6%
- quarter-on-quarter % change									-0.2%	1.5%	2.1%	1.2%
Less than 2 Bedroom (Rand/square metre)	4 804	6 797	7 639	8 486	8 712	8 209	8 495	8 668	8 572	8 742	9 031	9 083
- year-on-year % change	44.5%	41.5%	12.4%	11.1%	2.7%	-5.8%	3.5%	2.0%	1.5%	-0.1%	3.7%	5.1%
- quarter-on-quarter % change									-0.8%	2.0%	3.3%	0.6%
2 Bedroom (Rand/square metre)	4 683	6 018	6 785	7 644	7 906	7 778	7 844	7 805	7 782	7 905	8 000	8 122
- year-on-year % change	33.6%	28.5%	12.7%	12.7%	3.4%	-1.6%	0.8%	-0.5%	-1.3%	0.9%	2.3%	4.3%
- quarter-on-quarter % change									-0.1%	1.6%	1.2%	1.5%
3 Bedroom (Rand/square metre)	4 292	5 362	6 091	6 679	6 771	6 601	6 779	6 876	6 917	7 015	7 209	7 273
- year-on-year % change	30.1%	24.9%	13.6%	9.7%	1.4%	-2.5%	2.7%	1.4%	1.7%	2.7%	5.4%	5.1%
- quarter-on-quarter % change									-0.1%	1.4%	2.8%	0.9%
HOUSE PRICES BY HOME SIZE												
Large Homes (Rand)	810 167	1 055 516	1 250 923	1 480 260	1 551 867	1 505 146	1 542 940	1 585 457	1 608 392	1 624 326	1 640 943	1 657 559
- year-on-year % change	26.7%	30.3%	18.5%	18.3%	4.8%	-3.0%	2.5%	2.8%	3.4%	3.9%	4.0%	4.1%
- quarter-on-quarter % change									1.0%	1.0%	1.0%	1.0%
Medium Sized Homes (Rand)	455 320	569 728	650 502	725 982	771 161	781 951	823 225	851 100	865 579	880 519	896 272	909 859
- year-on-year % change	32.9%	25.1%	14.2%	11.6%	6.2%	1.4%	5.3%	3.4%	3.9%	5.0%	6.0%	6.5%
- quarter-on-quarter % change									1.3%	1.7%	1.8%	1.5%
Small Sized Homes (Rand)	256 391	318 570	359 106	405 011	394 141	372 294	397 365	420 021	431 457	439 970	447 403	453 992
- year-on-year % change	42.0%	24.3%	12.7%	12.8%	-2.7%	-5.5%	6.7%	5.7%	6.7%	7.4%	7.6%	7.2%
- quarter-on-quarter % change									1.9%	2.0%	1.7%	1.5%