how can we help you?

2 May 2013

PROPERTY BAROMETER –FNB HOUSE PRICE INDEX – APRIL 2013

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After a recent slowing growth rate, April year-on-year average house price growth starts to accelerate once more, beginning to reflect 1st quarter demand improvements.

APRIL HOUSE PRICE FINDINGS

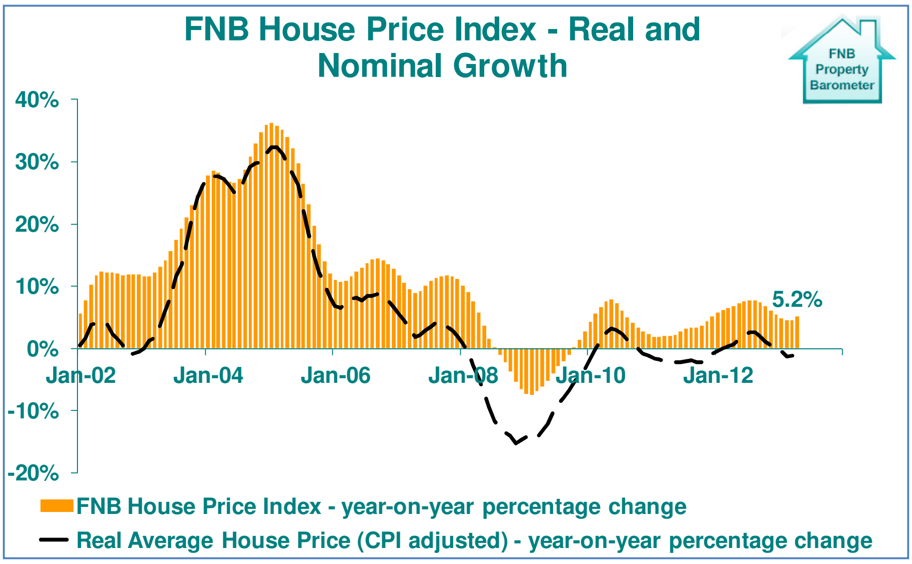
After a period of slowing year-on-year house price growth late in 2012 and early-2013, April data started to show renewed acceleration.

After some months of slowing year-on-year growth, in line with something of a lull in the economy during the 2nd half of last year, The FNB House Price Index for April 2013 showed renewed growth acceleration. The April year-on-year house price growth rate came in at 5.2%, up from a revised 4.6% for March.

A period of low, strike-affected, economic growth late in 2012 may have caused some slowing in house price growth through the summer months. But some normalization of growth, and apparent strengthening in residential demand in the 1st quarter of this year, is perhaps beginning to be reflected in this renewed rise in year-on-year house price growth.

The average value of homes transacted in the FNB House Price Index was R878,687

In real terms (adjusting house prices for general inflation in the economy using the CPI), as at March we were still seeing a year-on-year decline to the tune of -1.2%, with consumer price inflation for March still at a higher 5.85%, compared with house price inflation of 4.6% in that month. Renewed acceleration in nominal house price growth, however, may see this pace of real decline diminishing in the near term.

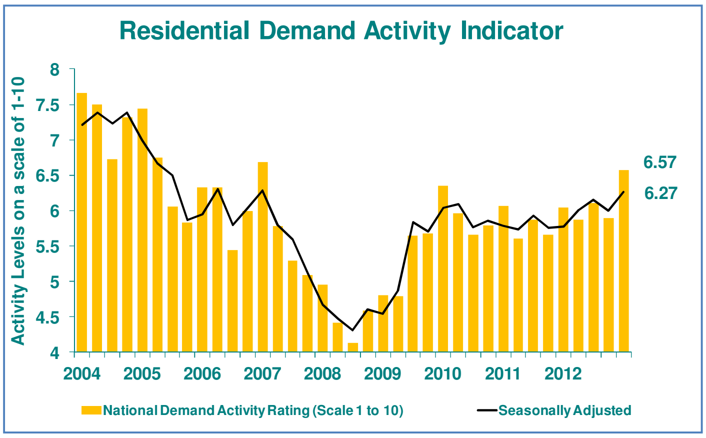


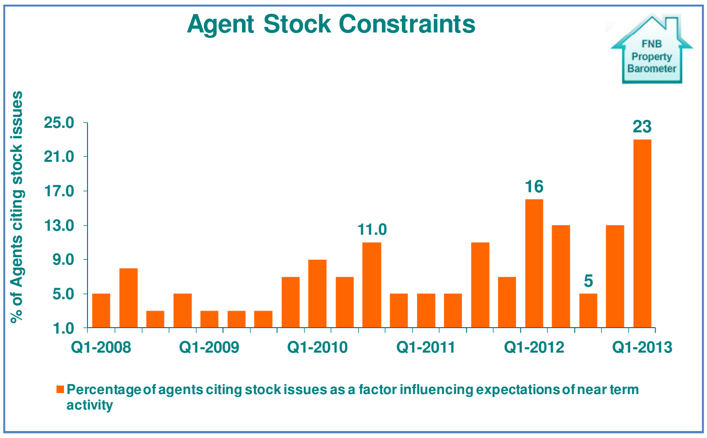
At a macroeconomic level, we believe that renewed acceleration in house price growth is reflective of a "normalizing" economic growth rate after major strike disruptions caused a significant drop in economic growth in the 2nd half of 2012.

At a more micro level, we believe that this acceleration is starting to reflect what the FNB Estate Agent Survey of the 1st quarter of 2013 told us, i.e. that residential demand had risen noticeably, as had the percentage of estate agents reporting residential stock constraints (i.e. stock available to sell).

After slipping slightly in the 4th quarter of 2012, the Estate Agent Residential Demand rating rose to 6.57 (from 5.89 previous) in the 1st quarter of 2013. However, more important is demand relative to supply, and in this regard it appears that supply of residential stock has become more constrained. After a drop in the percentage of agents citing stock constraints as an issue in their lives during the 2nd and 3rd quarters of 2012, a significant rise was reported in the 1st quarter 2013 survey to the tune of 23% of agents surveyed, the highest percentage in post-recession (recession being in 2008/9)times.

Residential property is thus in a relatively good space of late, although far from booming, and this is starting to once again be seen in a mildly accelerating growth rate in the FNB House Price Index.





OUTLOOK…..WE'RE STILL CAUTIOUS

Although we have seen recent improvements in both the FNB House Price Index growth rate as well as in various responses in our FNB Estate Agent Survey, our outlook for residential property remains a "cautious one". This is because many household sector financial and consumption numbers have actually been deteriorating. These include slowing real household disposable income growth through 2012, deteriorating consumer confidence, and a broad slowing in growth in real retail sales.

As residential property depends on the purchasing power of that same household sector that supports the retail sector, it remains difficult to visualize a sustained strengthening in residential demand when household and consumer sector numbers are going the other way.

And we don't envisage any significant improvement in real disposable income growth in the near term. Government is gradually raising the effective income and wealth tax/income ratio to fund its widening fiscal deficit, while local councils and utilities are raising their taxes and tariffs significantly too. In addition, we're not forecasting any interest rate cutting in 2013. On top of this, while we have pointed to domestic growth improving somewhat since late-2012, average economic growth for 2013 is forecast to be 2.4%, little different from last year's overall 2.5%. And indeed recent global economic data doesn't appear overly encouraging.

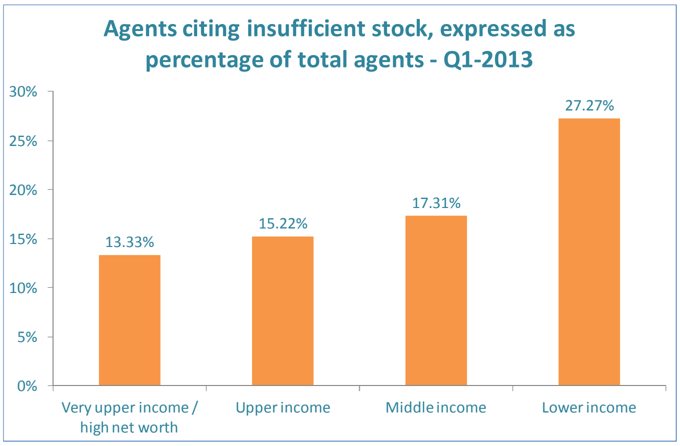
Om top of the above constraining factors, the household sector remains highly indebted, a significant constraint for what is a highly credit-driven sector.

However, we need to take cognizance of the supply side of residential property too. Unlike retail goods, whose supply is unlimited because of the ease with which we can import should local suppliers reach full capacity, new homes cannot be supplied as demand changes. Hence, the recent increase in agents citing stock constraints, with new building activity having been very weak for a few years now.

Having considered some increase in supply constraints recently, our thinking is that average house price growth for 2013 as a whole may be more in the 6-7% range when all is said and done, as opposed to our previous expectation of 4-5%. That would mean that house price growth more or less keeps pace with expected consumer price inflation not far from 6% average for the year.

In short, therefore, we have seen some recent improvement in year-on-year house price growth, emanating from improved market conditions a few months prior, but are not getting carried away with how far such improvement can go, given a still-mediocre global and local economic and household sector financial situation.

Finally, although higher end segments appear to have improved in performance in recent times, we still see the lower priced area segments performing slightly better in the near term. This view emanates once again from the FNB Estate Agent Survey, where higher percentages of agents in the lower end areas are reporting stock constraints.



The 4 Income segments are self-defined by agents working the areas, and comprise the High Net Worth segment (average 1st quarter 2013 price = R3.4m), the Upper Income segment (average price = R2.94m), the Middle Income segment (average price = R1.34m), and the Lower Income segment (average price = R822,900).

The percentage agents experiencing residential stock constraints by segments was 13.3% in the High Net Worth segment, 15.2% in the Upper Income segment, 17.3% in the Middle Income segment, and 27.3% in the Lower Income segment.

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 "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.

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.*