

PROPERTY BAROMETER – RESIDENTIAL BUILDING ACTIVITY

Does limited residential building activity imply the “need” for higher house price growth?

22 November 2013

3RD QUARTER RESIDENTIAL BUILDING ACTIVITY GROWTH PROVED DISAPPOINTING AFTER SOME PRIOR PROMISE

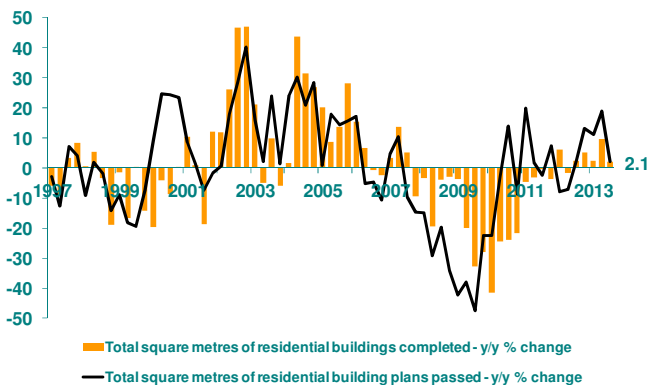
A quarter ago, it appear that residential building activity was beginning to take-off gradually, on the back of demand in the existing home market that had been slowly but surely catching up with supply, translating into growing available stock shortages.

However, the 3rd quarter of 2013 has proved to be something of a disappointment in that regard, with both square metreage of building plans completed as well as those plans passed showing a noticeable slowing in year-on-year growth.

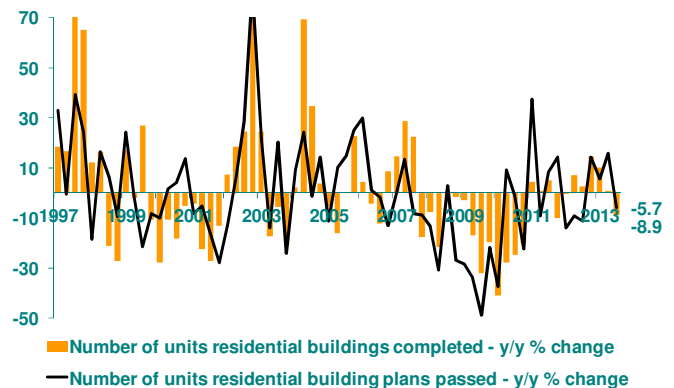
From 18.8% in the 2nd quarter, year-on-year, growth in square metreage of building plans passed slowed to 2.1% in the 3rd quarter of 2013. Similarly, square metreage of buildings completed saw its growth rate slow from 9.8% in the 2nd quarter to 2.1% as well.

It was only an increase in the average size of units built and planned that kept the square metreage growth positive, whereas if one examines the number of units, both plans passed (-5.7%) as well as completions (-8.9%) showed year-on-year declines.

Growth in Square Metreage of Residential Building Plans Passed vs Completed



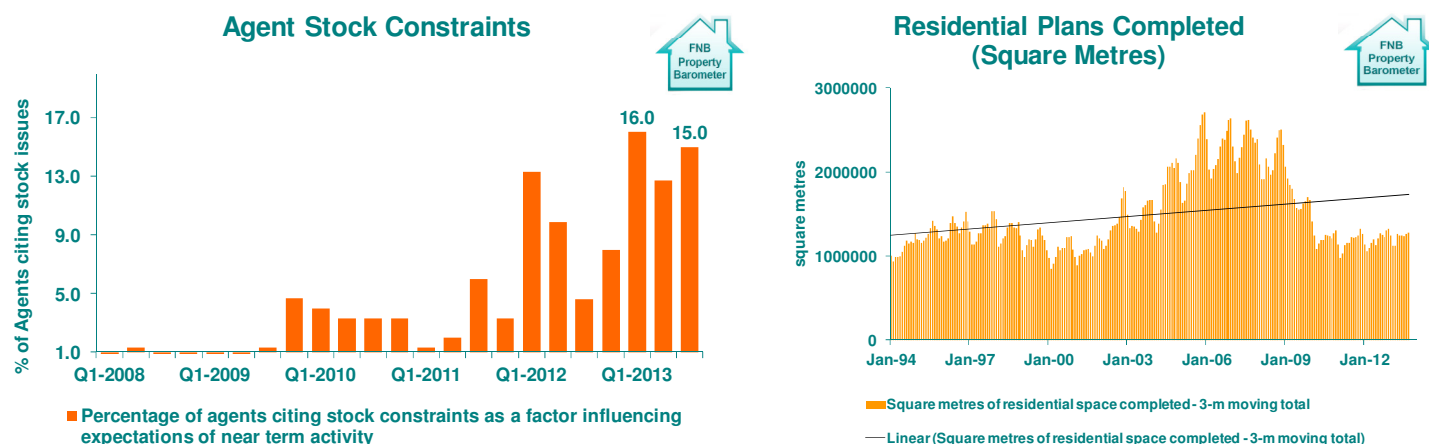
Residential Building Plans Passed vs Completed - Number of Units



Data source: StatsSA

This renewed slowing comes at a time when estate agents operating in the existing home market continue to report significant stock constraints. In our 3rd Quarter 2013 FNB Estate Agent Survey, 15% of respondents cited stock constraints as a key factor in influencing their perceptions of near term residential market activity. This percentage has been significantly elevated through 2013 to date, when compared to the previous few years.

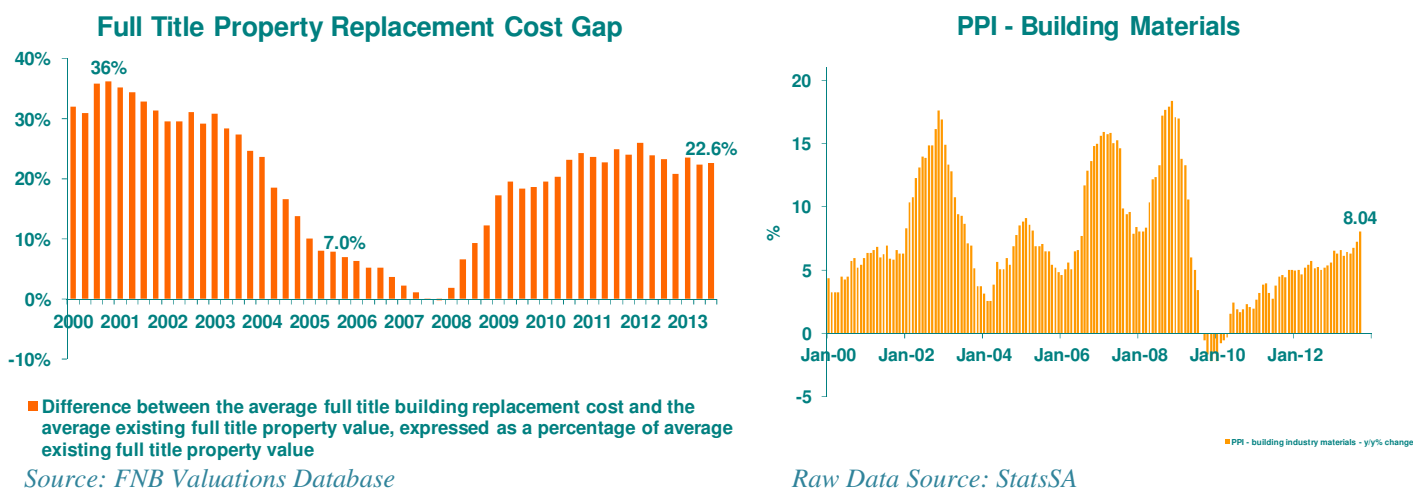
The latest quarter of weak building activity growth keeps the level of residential building completions at levels still-below the late-1990s and comparable with those lows of early last decade just prior to the massive house price boom.



Data sources: FNB; StatsSA

The ongoing mediocrity in residential building activity can perhaps largely be explained by a still-competitively priced existing home market relative to new house prices.

From 2007, existing house price declines in 2008/9, very weak price growth thereafter, and for much of that time building costs rising, meant a significant widening in the replacement cost gap (the percentage by which the average home replacement cost exceeds the average existing home value) up until early-2012. Thereafter, the rising trend more-or-less flattened out at best, but still remains very significant at 22.6%, keeping it a challenge for the new development sector to bring greater quantities of competitively priced newly built stock to the market. In addition, it appears that this gap may not narrow easily in the near term if one examines the Producer Price Index for Building Materials. While this is not the full story when it comes to total building costs, noteworthy is the fact that this index's year-on-year inflation as at September was 8.04%, slightly ahead of our own estimates of existing house price growth.



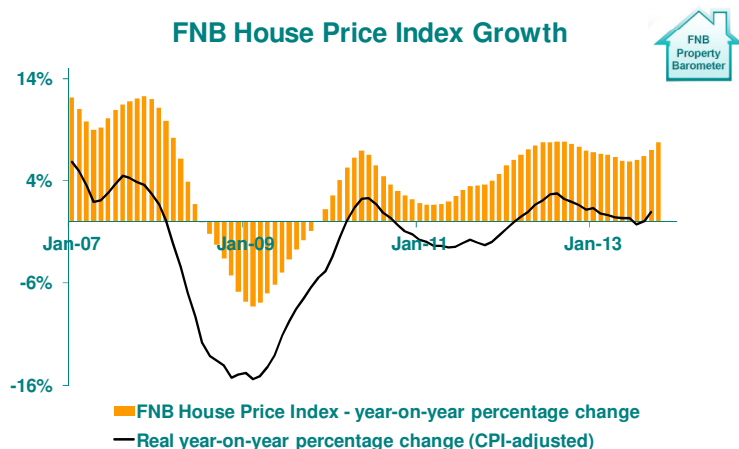
Source: FNB Valuations Database

Raw Data Source: StatsSA

The result of recent rises in existing home stock constraints has been a period of improved house price growth, which has “re-accelerated” in recent months to record a year-on-year rate of 7.8% as at October 2013.

This starts to beg the question as to whether the recent mild “re-acceleration” in house price growth, read in combination with stock constraints and still-weak building activity, is a sign of things to come in the form of higher-than-expected house price growth.

Although the replacement cost gap is not as wide as what it was just over a decade ago, a gap which contributed to a building activity level far too low to satisfy then-surging residential demand, it remains at a level where once again the level of building activity has in recent times been too low to prevent a rise in existing home stock constraints, it would seem.



Data Source: FNB

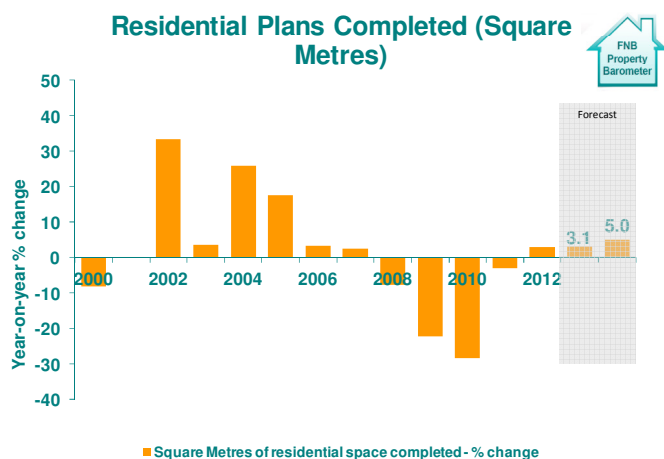
OUTLOOK

The near term outcome of lower-than-expected levels of residential building completions may well be a further acceleration in house price inflation from the most recent rate of 7.8% year-on-year, driven by already- elevated existing home stock shortages. This would contribute to existing home prices “getting ahead” of building cost increases, which would in turn contribute to some moderate narrowing in the Replacement Cost Gap, resulting in a more noteworthy rise in the level of building activity perhaps next year.

We continue to project slightly better building completions growth for the year 2013 as a whole, but our previous expectation of 7% growth for 2013 as a whole has been scaled down to 3.1% on the back of a weaker than expected 3rd quarter both in terms of completions and plans passed, and assuming a flat final quarter too..

However, given the significant existing home stock constraints we would expect further growth to resume in 2014, and pencil in a moderate 5% rate for the year. This may, however, have to come accompanied by slightly stronger existing house price growth, and we are starting to believe that a house price inflation rate of nearer to 9% for 2014 as a whole, above consumer price inflation expected to be just below 6%, may be starting to appear more realistic, based more on residential stock shortages than any major surge in residential demand from current levels.

Finally, we forecast real economic growth in 2014 accelerating from an expected 2% rate for 2013 to 2.8%, while interest rates are expected to remain at current levels through the entire 2014. Under such conditions, we believe a mild rise in residential building activity is still realistic.



Data source: StatsSA

Building Plans Passed

Residential Buildings	2010	2011	2012	Q1-2013	Q2-2013	Q3-2013	Jul-13	Aug-13	Sep-13
Dwelling houses less than 80 m.sq (Number)	20 752	22 567	17 793	4 361	4 430	4 831	1 527	1 728	1 576
<i>Y/Y % change</i>	-17.4	8.7	-21.2	-1.4	-2.1	3.9	87.1	8.7	-29.7
Dwelling houses less than 80 m.sq (m ²)	928 325	1 089 658	867 330	225 397	215 592	225 451	67 864	82 260	75 327
<i>Y/Y % change</i>	-15.7	17.4	-20.4	5.4	-2.0	-1.1	58.3	2.8	-28.3
Dwelling houses less than 80 m.sq (R'000)	2 092 786	2 757 030	2 704 622	700 948	671 133	758 768	213 837	285 496	259 435
<i>Y/Y % change</i>	-5.5	31.7	-1.9	9.1	-1.9	2.6	22.0	5.1	-11.4
Dwelling houses larger than 80 m.sq (Number)	14 885	15 529	16 580	4 043	4 151	4 144	1 476	1 452	1 216
<i>Y/Y % change</i>	8.0	4.3	6.8	1.0	5.4	-7.1	-3.3	-7.0	-11.3
Dwelling houses larger than 80 m.sq (m ²)	3 809 452	3 757 969	3 883 221	943 735	1 133 854	1 146 263	413 052	405 649	327 562
<i>Y/Y % change</i>	5.3	-1.4	3.3	4.6	20.3	7.7	12.0	6.5	4.3
Dwelling houses larger than 80 m.sq (R'000)	17 931 885	18 878 026	21 010 633	5 316 152	6 459 081	6 630 006	2 361 691	2 380 315	1 888 000
<i>Y/Y % change</i>	15.6	5.3	11.3	11.1	29.7	13.3	17.3	13.8	8.2
Flats and Townhouses (Number)	12 275	14 728	15 445	3 428	5 191	3 636	723	1 430	1 483
<i>Y/Y % change</i>	-25.7	20.0	4.9	23.0	51.2	-14.8	-56.3	-0.7	26.8
Flats and Townhouses (m ²)	1 172 152	1 401 183	1 495 616	351 128	449 187	362 242	79 043	141 759	141 440
<i>Y/Y % change</i>	-22.8	19.5	6.7	38.9	28.0	-10.7	-43.5	-4.6	20.7
Flats and Townhouses (R'000)	5 945 008	7 145 742	8 642 600	2 196 577	2 624 427	2 275 148	464 648	866 963	943 537
<i>Y/Y % change</i>	-13.3	20.2	20.9	65.2	33.9	-1.2	-37.3	3.3	30.7
Total units plans passed (Number)	47 912	52 824	49 818	11 832	13 772	12 611	3 726	4 610	4 275
<i>Y/Y % change</i>	-13.6	10.3	-5.7	5.5	15.8	-5.7	-6.8	0.4	-10.6
Total building plans passed (m²)	5 909 929	6 248 810	6 246 167	1 520 260	1 798 633	1 733 956	559 959	629 668	544 329
<i>Y/Y % change</i>	-5.3	5.7	0.0	11.0	18.8	2.1	1.5	3.3	1.5
Other Residential Buildings (m ²)	197 567	93 348	124 128	36 579	19 983	103 723	92 712	3 199	7 812
<i>Y/Y % change</i>	-25.3	-52.8	33.0	54.6	53.1	739.4	1374.7	-7.9	201.0
Other Residential Buildings (R 000)	1 090 834	444 940	615 884	224 322	173 040	897 746	843 575	17 521	36 650
<i>Y/Y % change</i>	-18.8	-59.2	38.4	88.0	224.7	1260.8	2766.6	-12.2	121.0
Total Residential Buildings (R 000)	27 060 513	29 225 738	32 973 739	8 437 999	9 927 681	10 561 668	3 883 751	3 550 295	3 127 622
<i>Y/Y % change</i>	4.4	8.0	12.8	22.7	29.3	17.9	31.2	10.1	12.6
Additions and Alterations									
Dwelling houses (m ²)	3 443 686	3 160 212	3 124 926	688 414	803 498	849 570	316 025	273 529	260 016
<i>Y/Y % change</i>	3.8	-8.2	-1.1	-6.9	2.6	4.6	11.4	-3.4	5.9
Dwelling houses (R'000)	15 388 880	15 111 747	15 866 569	3 626 725	4 239 029	4 540 684	1 678 469	1 446 876	1 415 339
<i>Y/Y % change</i>	13.0	-1.8	5.0	-1.1	8.3	7.8	15.6	-1.4	9.6

Buildings Completed

Residential Buildings	2010	2011	2012	Q1-2013	Q2-2013	Q3-2013	Jul-13	Aug-13	Sep-13
Dwelling houses less than 80 m.sq (Number)	18 858	19 506	20 023	4 789	4 294	3 672	1 356	1 093	1 223
<i>Y/Y % change</i>	-23.3	3.4	2.7	20.8	-18.9	-23.3	-20.5	-43.2	5.7
Dwelling houses less than 80 m.sq (m ²)	837 429	906 246	902 955	221 038	194 920	172 971	65 014	51 147	56 810
<i>Y/Y % change</i>	-22.1	8.2	-0.4	23.1	-17.8	-20.7	-15.4	-41.8	6.3
Dwelling houses less than 80 m.sq (R'000)	1 835 428	2 297 040	2 337 344	547 226	540 556	554 446	204 261	162 605	187 580
<i>Y/Y % change</i>	-19.2	25.2	1.8	12.1	-10.6	-2.2	-6.3	-19.4	27.5
Dwelling houses larger than 80 m.sq (Number)	10 856	11 456	11 572	2 607	3 090	2 808	947	950	911
<i>Y/Y % change</i>	-21.9	5.5	1.0	-6.9	12.7	-2.4	-11.2	4.2	1.3
Dwelling houses larger than 80 m.sq (m ²)	2 787 173	2 773 544	2 805 940	610 959	787 956	728 563	247 434	261 794	219 335
<i>Y/Y % change</i>	-24.0	-0.5	1.2	-8.3	18.7	0.0	-9.0	8.8	1.4
Dwelling houses larger than 80 m.sq (R'000)	12 323 412	13 371 829	14 579 830	3 263 693	4 236 077	4 104 046	1 368 448	1 473 110	1 262 488
<i>Y/Y % change</i>	-15.7	8.5	9.0	-2.0	29.0	4.2	-7.1	13.9	7.8
Flats and Townhouses (Number)	10 965	9 545	11 386	3 066	3 033	3 582	1 292	1 001	1 289
<i>Y/Y % change</i>	-40.6	-13.0	19.3	12.1	31.7	6.1	16.1	-11.8	14.2
Flats and Townhouses (m ²)	1 191 976	996 413	1 104 767	291 562	260 602	381 508	137 421	104 777	139 310
<i>Y/Y % change</i>	-39.5	-16.4	10.9	15.4	12.2	23.2	67.7	-15.7	34.8
Flats and Townhouses (R'000)	5 645 543	4 845 205	5 848 247	1 692 519	1 412 249	2 306 005	783 775	629 851	892 379
<i>Y/Y % change</i>	-33.6	-14.2	20.7	33.5	17.0	38.9	73.0	-5.9	65.8
Total units completed (Number)	40 679	40 507	42 981	10 462	10 417	10 062	3 595	3 044	3 423
<i>Y/Y % change</i>	-28.6	-0.4	6.1	10.1	0.8	-8.9	-7.5	-23.4	7.5
Total building space completed (m²)	4 816 578	4 676 203	4 813 662	1 123 559	1 243 478	1 283 042	449 869	417 718	415 455
<i>Y/Y % change</i>	-28.3	-2.9	2.9	2.3	9.8	2.1	4.5	-7.8	11.4
Other Residential Buildings (m ²)	192 468	149 523	45 645	45 017	5 044	33 364	5 319	17 157	10 888
<i>Y/Y % change</i>	-13.9	-22.3	-69.5	397.6	8.4	375.1	#N/A	1034.7	97.6
Other Residential Buildings (R 000)	1 208 759	863 212	306 248	236 007	26 953	206 271	20 266	93 795	92 210
<i>Y/Y % change</i>	20.6	-28.6	-64.5	508.9	28.7	327.9	#N/A	965.7	134.0
Total Residential Buildings (R 000)	21 013 142	21 377 286	23 071 669	5 739 445	6 215 835	7 170 768	2 376 750	2 359 361	2 434 657
<i>Y/Y % change</i>	-20.4	1.7	7.9	12.0	21.5	15.4	10.9	8.6	28.4
Additions and Alterations									
Dwelling houses (m ²)	1 811 174	1 762 670	1 466 959	455 328	469 649	445 970	161 350	147 666	136 954
<i>Y/Y % change</i>	-21.6	-2.7	-16.8	20.2	22.2	23.6	50.3	12.4	12.1
Dwelling houses (R'000)	7 392 211	7 871 046	6 867 590	2 055 054	2 195 561	2 168 273	773 871	713 157	681 245
<i>Y/Y % change</i>	-12.2	6.5	-12.7	21.4	25.1	23.0	46.3	11.0	15.0