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PROPERTY BAROMETER - SEPTEMBER FNB HOUSE PRICE INDEX

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It remains a very stable market, as house price increases continue to more-or-less track consumer price inflation

HOUSE PRICE INDEX GROWTH SHOWS ANOTHER MILD ACCELERATION

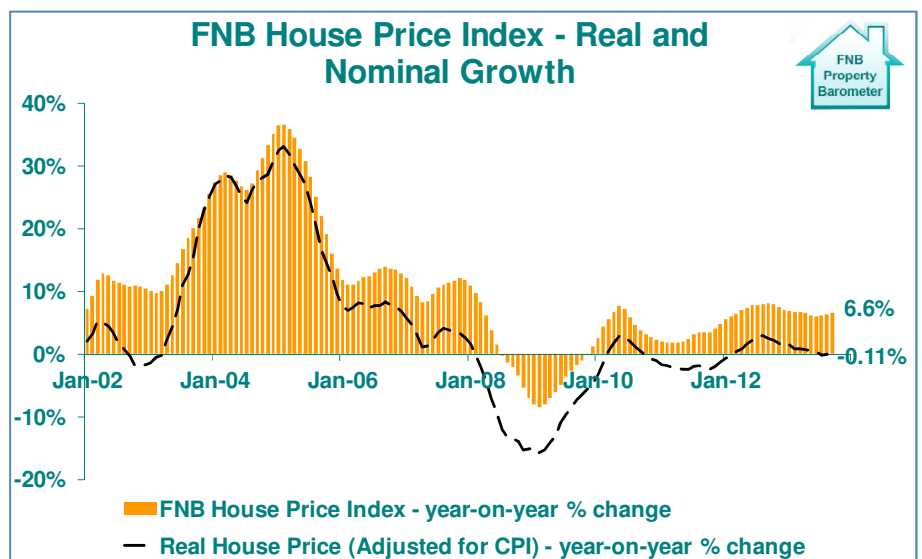
The residential market picture remains one of “stability but no fireworks”, as average house price growth continues to more-or-less keep pace with general inflation in the economy, implying virtually no movement in real price levels.

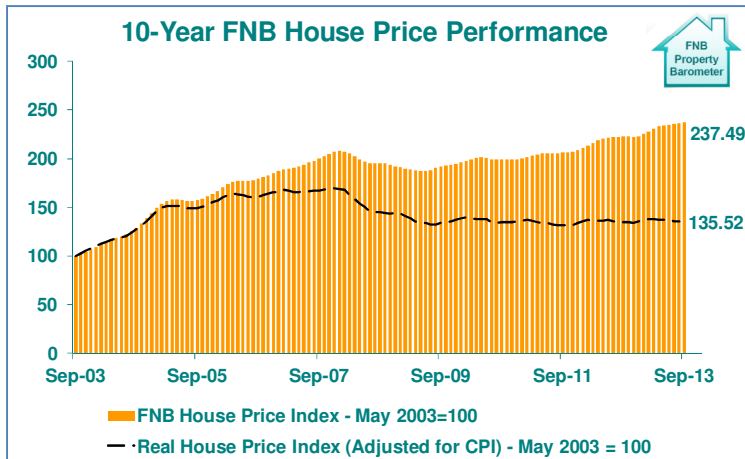
The FNB House Price Index showed a further slight acceleration in its year-on-year growth rate, from a previous month’s revised 6.3%, to 6.6% in September.

While not a rapid acceleration, it represents the 3rd consecutive increase in house price growth since the 6% rate recorded in June..

The average value of homes transacted in the FNB House Price Index was R900,907.

In real terms (adjusting house prices for general inflation in the economy using the CPI), as at August we were seeing virtually no year-on-year change, with only a very slight -0.11% decline to be precise, with the Consumer Price Index recording inflation of 6.4% in that month, slightly higher than the 6.3% CPI rate of July.



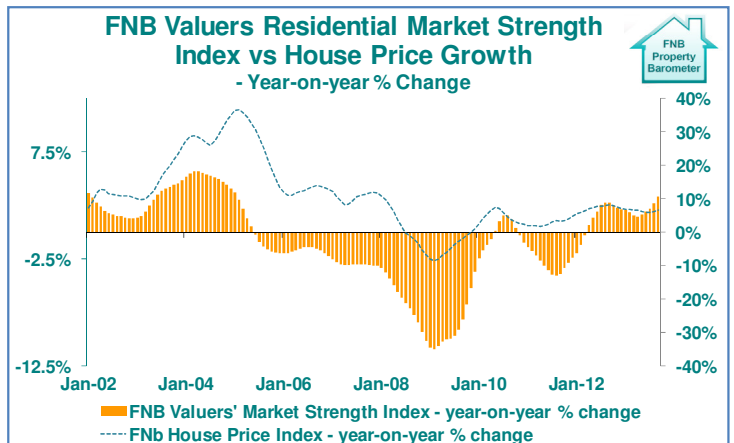
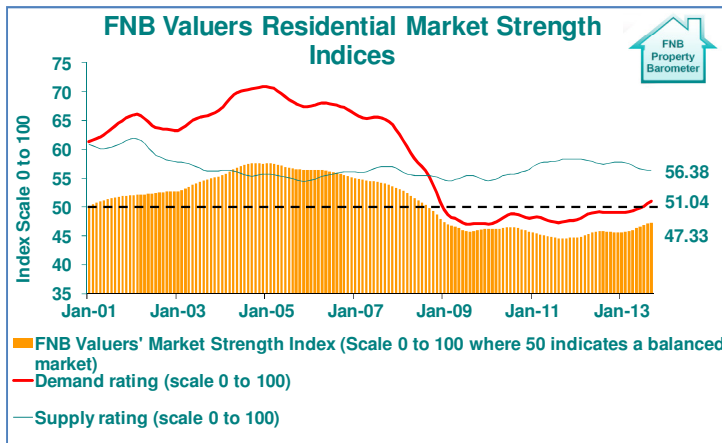


Evaluating longer term performance, compared to September 2003, 10 years ago, the index is up 35.5% in real terms and 137.5% in nominal terms, still suggesting that the full price effects of last decade's residential demand boom haven't yet worn off. Looking at the more recent past, however, in real terms the index is -20.2% down on last decade's revised real price peak reached in December 2007, while in nominal terms it is a mere 14.7% higher, thus reflecting a partial price "correction" following the boom years.

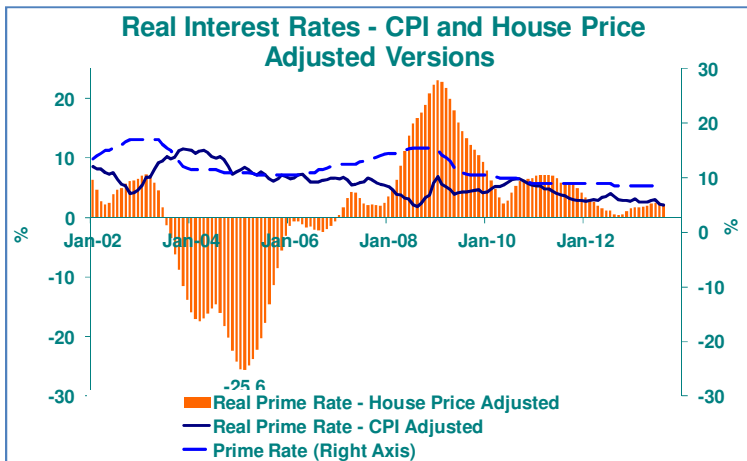
FNB'S VALUERS PERCEIVE FURTHER IMPROVEMENT IN BALANCE BETWEEN SUPPLY AND DEMAND

Turning to the FNB Valuers' Market Strength Index, FNB's Valuers continue to explain the recent relative market "stability with mild improvement" as the combined result of positive residential demand growth as well as a more constrained supply of residential stock on the market.

Since early-2012, the FNB Valuers' Market Strength Rating Index has shown gradual positive year-on-year growth after a 2011 decline. It still remains below the crucial level of 50, at 47.33, implying that the residential demand rating of 51.04 is still weaker than the 56.38 Residential Supply Rating. This arguably explains why we have not yet seen strong house price growth in real terms, because, while they do see supply being a little more constrained, the constraint is still not yet seen as being "extreme". Of significance, though, is that the Valuers Demand Rating has risen to above the 50 level over the past 2 months, for the 1st time since late-2008, implying that more valuers see demand as "strong" than those rate it as "weak".



AND POSITIVE REAL INTEREST RATES KEEP THE MARKET “SANE”



In September, the SARB (South African Reserve Bank) decided once again to keep interest rates unchanged, which was a positive move from a residential market “sanity” point of view. We say this because the current prime lending rate of 8.5% remains above house price growth.

Our alternative calculation of real prime rate, using house price growth instead of consumer prices to adjust prime from nominal to real terms, shows a positive real prime rate of 2.4%.

This limits any potential for short term speculative behavior, or for perhaps “irrational” buy-to-let buying decisions based on recent capital growth trends as opposed to income

stream.

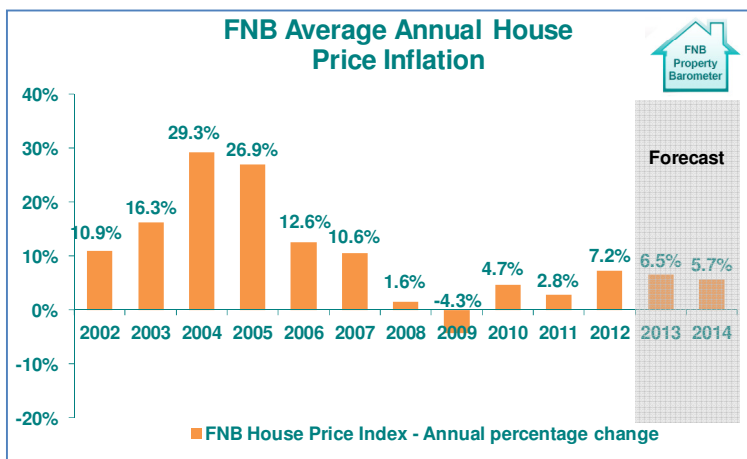
Not surprisingly, therefore, our indicators of buy-to-let buying, and growth in number of home-owners with 2nd properties, remain weak and primary residential demand is “king”

CONCLUSION

The residential market can be deemed to be very stable and very “rational” at present. Residential demand has indeed been improving, but the FNB estimates of house price growth in recent months point to no significant change in real house price levels, as nominal house price inflation more-or-less tracks consumer price inflation. This is, however, a significantly better situation from one of real house price decline a few years ago.

Recent economic events continue to by-and-large explain this real price stability without “fireworks”. The economy, too, could arguably be deemed to be “stable but without significant growth”, growing positively but battling to grow even by 2% in recent quarters. In addition, the SARB has kept interest rates unchanged for over a year now, providing perceived “certainty” in aspirant home buyers’ minds perhaps, but no additional stimulus. It also keeps interest rates at levels where “unhealthy” speculative behavior is restricted.

And certain economic indicators released during September lead us to expect this stable situation to persist in the near term, with house price growth not straying too far from consumer price inflation. Obviously, in such a credit-driven market, the lack of further interest rate stimulus features strongly in our reasoning. But in addition, the September SARB Quarterly Bulletin continued to show real household disposable income growth hovering between 2-3%, having grown by 2.4% on a quarter-on-quarter annualized basis in the 2nd quarter, now significantly slower than a peak of above 7% at a stage of 2010. Slower real disposable income growth in recent times has led to a slowdown in retail sales growth, and the FNB Consumer Confidence Index for the 3rd quarter showed an unsurprising deterioration.



Mediocre household income and consumption numbers should point to mild demand growth at best. The question then remains as to how rapidly the residential building sector can respond in increasing supply of new stock. Indeed, the 2nd quarter saw a noticeable increase in the number of residential units’ plans passed (15.8% year-on-year), suggesting a more rapid rate of completions to come. This contributes to our view that we are unlikely to see a significant rise in house price growth from here onward in the near term.

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 “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.*

Note on the FNB Valuers' Market Strength Index: **When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple "good (100)", "average (50)", and "weak (0)". From all of these ratings we compile an aggregate demand and an aggregate supply rating, which are expressed on a scale of 0 to 100. After aggregating the individual demand and supply ratings, we subtract the aggregate supply rating from the demand rating, add 100 to the difference, and divide by 2, so that the FNB Valuers' Residential Market Strength Index is also depicted on a scale of 0 to 100 with 50 being the point where supply and demand are equal.*

Property and Mortgage Market Summary

END OF PERIOD	2010	2011	2012	Q4-2012	Q1-2013	Q2-2013	Q3-2013	Jun-13	Jul-13	Aug-13	Sep-13
Residential Property Prices											
FNB National Average House Price (Rand)	756 067	777 600	833 701	845 469	865 185	887 316	896 892	890 498	893 177	896 591	900 908
<i>y/y % change</i>	4.7	2.8	7.2	7.5	6.8	6.2	6.3	6.0	6.1	6.3	6.6
<i>m/m seasonally-adjusted % change</i>								0.52	0.66	0.73	0.76
FNB Valuers Demand Strength Index	48.09	47.74	48.85	49.12	49.12	49.57	50.6	49.82	50.16	50.61	51.04
<i>y/y % change</i>	0.9	-0.7	2.3	3.0	2.0	1.2	3.0	1.4	2.0	3.0	3.9
<i>m/m % change</i>								0.55	0.69	0.88	0.85
FNB Valuers Supply Strength Index	55.54	57.91	57.85	57.75	57.65	56.9	56.42	56.615	56.472	56.407	56.381
<i>y/y % change</i>	1.0	4.3	-0.1	-1.1	-1.1	-1.7	-1.9	-1.8	-1.8	-1.8	-2.0
<i>m/m % change</i>								-0.44	-0.25	-0.12	-0.05
FNB Valuers Market Strength Index	46.28	44.92	45.5	45.69	45.73	46.33	47.09	46.6	46.84	47.1	47.33
<i>y/y % change</i>	-0.1	-2.9	1.3	2.3	1.8	1.7	2.7	1.9	2.2	2.7	3.3
<i>m/m % change</i>								0.56	0.52	0.54	0.48
Major Metro Areas Average House Price (Rand)	913 820	949 239	982 006	1 001 832	1 017 232	1 035 070					
<i>y/y % change</i>	6.4	3.9	3.5	4.4	5.4	6.3					
- Upper Income Area Average House Price (Rand)	1 824 287	1 893 423	1 937 201	1 985 222	2 019 135	2 052 954					
<i>y/y % change</i>	7.0	3.8	2.3	4.2	6.0	7.2					
- Middle Income Area Average House Price (Rand)	1 065 283	1 106 892	1 157 044	1 181 620	1 205 957	1 232 488					
<i>y/y % change</i>	7.0	3.9	4.5	5.0	6.0	7.4					
- Lower Income Area Average House Price (Rand)	690 175	716 659	742 513	754 851	763 315	775 158					
<i>y/y % change</i>	5.8	3.8	3.6	4.2	4.6	5.0					
- Affordable Area Average House Price (Rand)	355 651	374 834	389 548	397 424	405 101	413 043					
<i>y/y % change</i>	7.9	5.4	3.9	4.6	5.7	6.8					
- Major 3 Provinces' Former Black Township Average House Price (Rand)	237 770	255 709	261 969	266 535	273 090	281 953					
<i>y/y % change</i>	15.7	7.5	2.4	3.4	5.7	8.4					
- Coastal Holiday Towns Average House Price (Rand)	828 173	792 054	800 383	798 798	805 835	818 777					
<i>y/y % change</i>	-1.1	-4.4	1.1	1.2	1.1	1.7					
FNB Estate Agent Survey											
Level of Residential Demand Activity (Scale 1 to 10)	5.94	5.8	5.98	5.89	6.57	6.33					
<i>y/y % change</i>	13.6	-2.3	3.1	4.1	8.6	7.8					
First time buyers as a percentage of total buyers (%)	17.0	23.0	23.0	21.0	24.0	22.0					
Buy-to-let as a percentage of total buyers (%)	7.5	8.0	9.3	7.0	8.0	8.0					
Average time of properties on the market (Weeks and Days)	15.1	17.3	16.0	15.4	17.2	17.1					
Percentage of properties sold at less than asking price (%)	79.5	88.3	86.0	85.0	89.0	90.0					
Percentage of properties on the market for 3 months or more (%)	73.0	80.5	77.5	79.0	75.0	74.0					
Residential Building Sector											
Number of units' plans passed	47 912	52 824	49 818	13 336	11 832	13 772		3 933	3 726		
<i>y/y % change</i>	-13.6	10.3	-5.7	14.3	5.5	15.8		5.9	-6.8		
Square metres' worth of plans passed	5 909 929	6 248 810	6 246 167	1 665 923	1 520 260	1 798 633		579 346	559 959		
<i>y/y % change</i>	-5.3	5.7	-0.0	13.3	11.0	18.8		14.8	1.5		
Average size of units' plans passed (square metres)	123.3	118.3	125.4	124.9	128.5	130.6		147	150		
Number of units completed	40 679	40 507	42 981	12 102	10 462	10 417		3 025	3 595		
<i>y/y % change</i>	-28.6	-0.4	6.1	14.8	10.1	0.8		-10.5	-7.5		
Square metres' worth of buildings completed	4816578.0	4676203.0	4813662.0	1325600.0	1123559.0	1243478.0		393 305	449 869		
<i>y/y % change</i>	-28.3	-2.9	2.9	5.0	2.3	9.8		2.5	4.5		
Average size of units' completed (square metres)	118.4	115.4	112.0	109.5	107.4	119.4		130.02	125.14		

Property and Mortgage Market Summary

END OF PERIOD	2010	2011	2012	Q4-2012	Q1-2013	Q2-2013	Q3-2013	Jun-13	Jul-13	Aug-13	Sep-13
Mortgage Market											
New residential loans and re-advances granted (R'm)				44 282	42 255	49 349		15 696			
<i>y/y % change</i>				10.4	7.0	14.2		4.0			
Residential re-advances granted (R'm)				2 108	1 974	2 487		877			
<i>y/y % change</i>				-22.8	-2.0	23.1		10.5			
Total residential mortgage loans outstanding - Banks (R'm)	806 804 118	816 577 655	826 765 341	826 765 341	829 260 720	832 446 791		832 446 791	833 215 087		
<i>y/y % change</i>	4.1	1.2	1.2	1.2	1.	1.3		1.3	1.4		
Key Economic Indicators											
Real Gross Domestic Product (R'm at 2000 prices)	1 842 054	1 905 735	1 954 303	1 969 183	1 973 552	1 988 372					
<i>y/y % change</i>	3.1	3.5	2.5	2.5	1.9	2.0					
Real Residential Fixed Investment (R'm)	25 997	24 078	24 836	24 720	24 676	24 736					
<i>y/y % change</i>	-13.4	-7.4	3.1	3.0	0.1	-0.6					
Prime Rate (%)	9.8	9.	8.8	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Yields on Government Bonds 10 years and Longer (%)	8.6	8.5	7.9	7.6	7.3	7.3	8.2	8.0	8.0	8.4	8.2
Currencies - USDZAR	7.32	7.27	8.22	8.697	8.957	9.491	9.994	10.02	9.91	10.08	9.99
Currencies - EURZAR	9.69	10.10	10.55	11.276	11.825	12.396	13.231	13.21	12.97	13.42	13.33
CPI - <i>y/y % change</i>	4.3	5.	5.7	5.6	5.7	5.7		5.5	6.3	6.4	
Gauteng pump price <i>y/y%</i>				13.2	13.4	5.8	19.2	5.7	22.5	23.0	12.8
FNBBER Consumer Confidence Index	14.5	7.3	-0.5	-3.0	-7.0	1.0	-8.0				
RMBBER Business Confidence Index	43	45	47	46.0	52.0	48.0	42.0				
SARB Composite Leading Business Cycle Indicator	100.	101.4	100.6	101.4	102.5	101.1		100.43	100.65		
<i>y/y % change</i>	16.0	1.4	-0.8	0.9	0.9	1.4		1.81	1.48		
<i>m/m % change</i>								-0.82	0.22		
Real Retail Sales (2008 Prices) - R'm	589 198	625 565	654 137	186 960	156 241	161 259		54 138	53 308		
<i>y/y % change</i>	5.5	6.2	4.6	2.3	2.8	3.2		1.4	2.8		
Manufacturing - Volume of Production (Index 2005=100)	100.	102.74	105.23	111.1	99.4	105.6		105.4	111.7		
<i>y/y % change</i>	4.7	2.7	2.4	3.3	-0.1	3.2		0.5	5.4		
Mining - Volume of Production (Index 2005=100)	100.01	99.13	95.98	93.9	89.4	98.3		102.9	104.8		
<i>y/y % change</i>	4.9	-0.9	-3.2	-6.7	3.1	-2.2		-5.4	0.6		
Vehicle Sales - Total (NAAMSA)	426 233	496 181	539 303	137 744	141 750	141 166		48 662	51 448	49 139	
<i>y/y % change</i>	20.4	16.4	8.7	9.7	5.6	13.6		7.9	10.6	0.6	
Passenger Vehicle Sales - Total (NAAMSA)	279 238	329 829	364 767	94 184	95 008	93 409		32 744	34 282	32 657	
<i>y/y % change</i>	24.2	18.1	10.6	15.7	5.1	14.1		9.1	9.2	-3.6	