PROPERTY BAROMETER – PROPERTY TRANSACTION VOLUMES

A view of property transaction volume trends confirms "solid" levels, but reflects recent economic trends, i.e. little growth to speak of in the initial stages of 2015.

11 July 2015

While much of the attention is usually on what house prices are doing, the trends in the growth of transactions volumes in the residential market are possibly a better reflection of economic growth trends and their impact on the residential market.

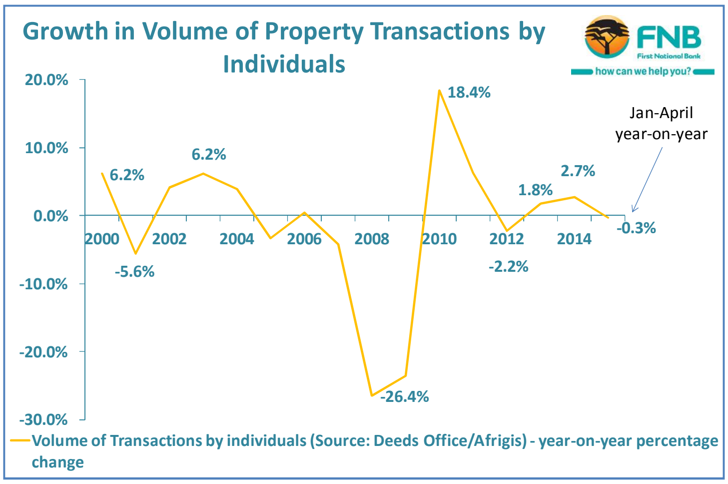
During the 1st 2 quarters of 2015, our FNB Estate Agent Surveys of agents' perceptions of activity levels in the market have shown a solid level of perceived activity, and a good market balance, but no further improvement on the levels recorded in the survey during the corresponding quarters of 2014. They thus pointed to growth having flattened out.

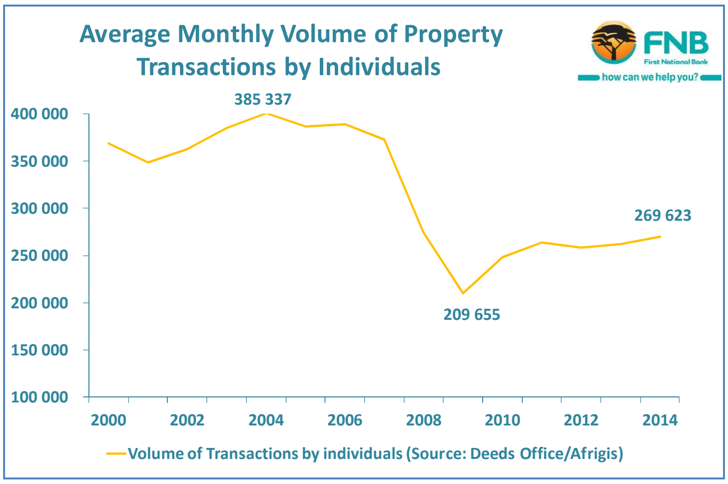
An examination of Deeds Office data transaction volumes suggests that their perceptions were very close to reality. Using Deeds data to identify registered property transactions by individuals only (Deeds does not distinguish between residential and commercial property transaction, but by using individuals/"natural persons" and not juristic entities we believe residential would dominate the sample), we have indeed seen a flattening out in year-on-year growth for the 1st 4 months of 2015. After a 2.7% growth rate in transaction volumes for 2014, the January-April rate, compared with the corresponding 4 months of 2014, turned slightly negative to the tune of -0.3%.

The average number of individuals' transactions that we could identify was running at 20,085 per month, very similar to the 20,153 per month for the corresponding months of 2014.

Therefore, the early-2015 Deeds data appears in line with our survey results at the time, and appears to reflect a residential market moving in line with a stagnant -growth economy.

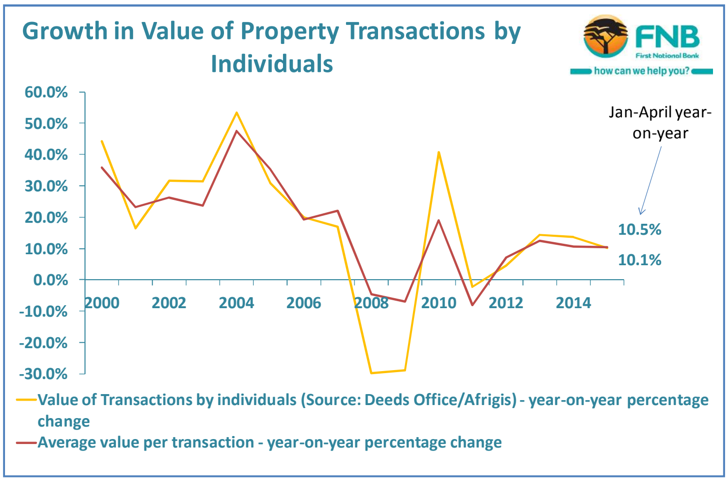
The flattening out in growth comes after a significant recovery in transaction volumes since the 2009 low point, with the 2014 level 28.6% higher than the total for 2009. On the other hand, though, this level remains 32.7% below the boom time peak of 2004, as we would expect in what these days is a market largely free of the "speculation and irrational behavior" of back then.

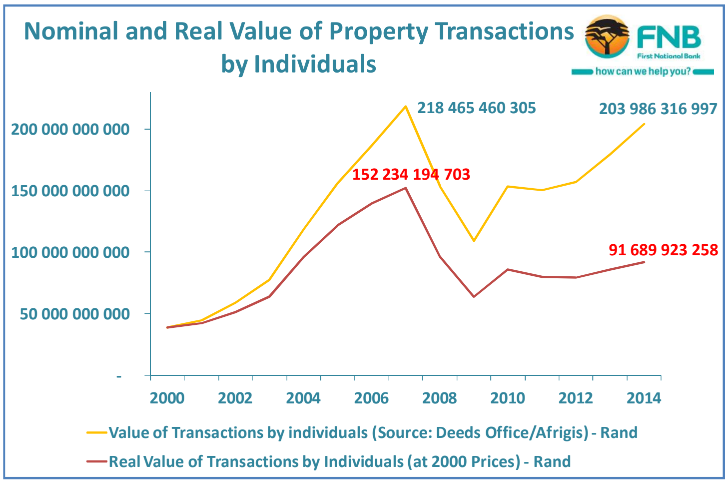




The above mentioned volumes levels, still so much lower than the 2004 peak, may sound confusing to some who have perhaps heard mention of "record sales" levels achieved by certain players in the residential market at stages of 2014. There is an explanation for this. Record sales in Rand value were possibly achieved by many in 2014. We estimate the total Rand value of transactions by individuals to have been R203.99 billion. This itself is not a record level, but is not far off the record levels of R218.47 billion which we estimate for 2007 (only -6.6% lower), the very last year of what could be termed the "boom period". Given that there are probably significantly less estate agents, and a few less estate agencies, around these days, 2014 was probably indeed a record sales year in rand value for some.

But how good was 2014 in Real Terms, i.e. when one adjusts for general inflation in the economy using Consumer Price Index (CPI) inflation? Then, the recent picture appears far more modest relative to the 2007 transaction value peak, with the 2014 value f sales in Real terms being -39.8% lower than 2007, although being +44.3% up on the 2009 low.





Data sources: Deeds Office/Afrigis

Therefore, either way one looks at it, the Deeds data regarding individuals' transaction levels indicates that be it in volume or in real value terms, the market is far smaller today compared to what it was around the boom time volume peak of 2004, or the value peak of 2007.

It also points volume growth trends broadly reflecting economic growth trends, having recovered sharply in 2010, experienced the 2nd leg of the so-called "double dip" in 2011/12 (although this was not a severe drop), recovered nicely through 2013 and 2014, and then "flattening out" in the initial stages of 2015.

This flattening should be no real surprise, with a rational residential market responding to slowed economic and real disposable income growth in recent times, and to the start of interest rate hiking in 2014.

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