PROPERTY BAROMETER – AREA VALUE BANDS

2014 appears to have seen house price growth momentum building up more in the Low Income Area Segment, possibly the early sign of affordability deterioration in the residential market. 2015 could be more of the same.

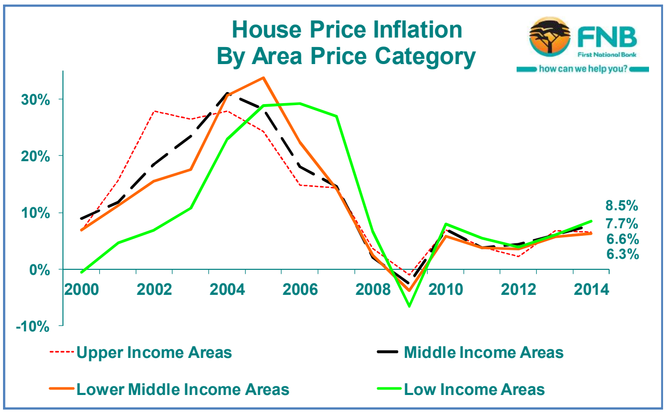
15 January 2015

LOW INCOME AREAS SHOW HIGHEST PRICE GROWTH IN 2014, BUT NOT BY FAR

After the end of the 2008/9 Recession, and the big interest rate cutting by the Reserve Bank (SARB) though 2009, the house price growth recovery appeared to be led more strongly by the Low Income Area end of the residential market.

This stands to reason. These low end areas had experienced more extreme price deflation around 2009, and thus came off a lower base. Households in these lower end areas are arguably more credit dependent and interest rate sensitive, too, so big interest rate cutting caused them to "emerge from the woodwork" in more significantly growing numbers.

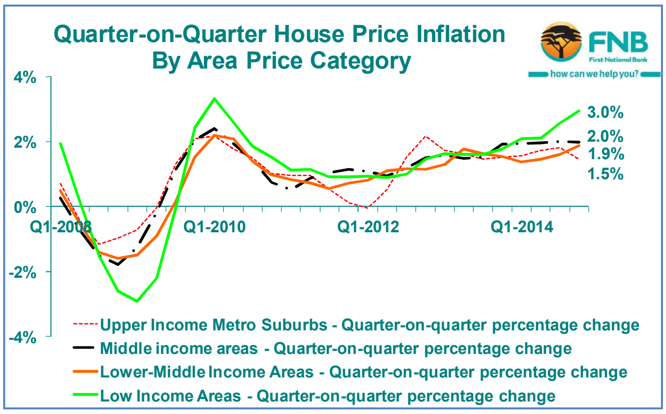
Then, around 2012-2013, with a considerable lag the Middle-to-Upper Income Area Segments began to strengthen more noticeably, and Low Income Areas no longer had the highest house price inflation in these years.



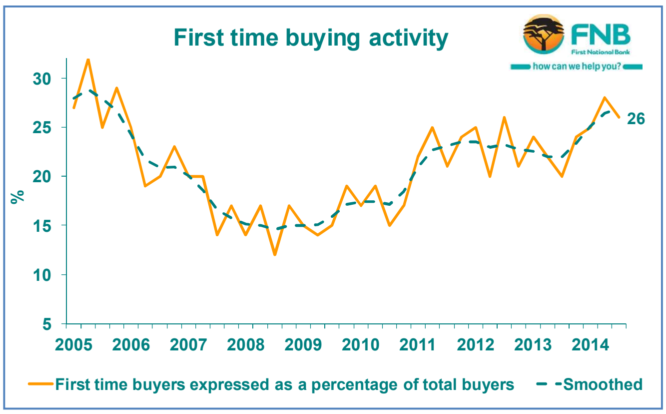
As 2014 progressed, though, it appeared that the Low Income Areas once again began to outperform the higher priced areas, admittedly not by far though.

For 2014 as a whole, our FNB House Price Indices by Area Value Band point to the Low Income Metro Areas (average 2014 price = R448,6596) showing 8.6% average house price inflation. This was followed by the Middle Income Area Segment (Average 2014 price = R1.315m) with 7.7%, Upper Income Areas (average 2014 price = R2.192m) with 6.6%, and the Lower Middle Income Areas" (average 2014 price = R834,064) showed the slowest average price inflation of 6.3%,.

While the difference between segments is not yet that big on an annual basis, examining the growth rates on a quarter-on-quarter basis it becomes far more significant, with the Low Income Segment having accelerated to 3% quarter-on-quarter by the 4th quarter of 2014, well higher than the Middle Income Area's 2%, the next highest Area Value Band.



What's changed in 2014? 2 things perhaps. Firstly, 1st time buyers are a highly cyclical bunch, and appear to have gained renewed confidence during 2014. After what appeared to be the start of a declining trend around 2012-13, 1st time buyers expressed as a percentage of total home buyers started to increase once more in 2014, to levels above 25%, according to the FNB Estate Agent Survey.

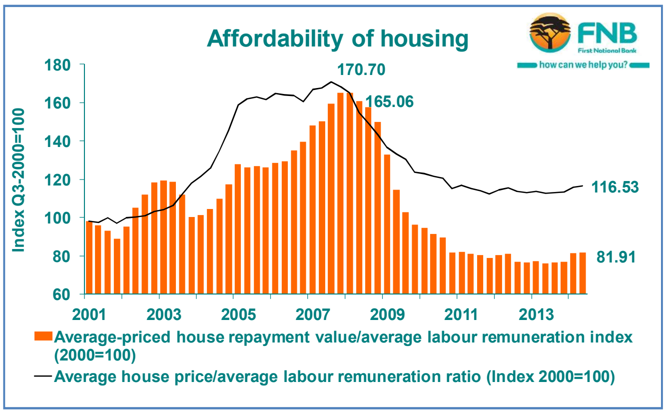


Secondly, 2014 also saw residential affordability start to decline as per our own FNB Affordability Ratios.

Of our 2 main affordability measures, the 1st measure, namely the Average House Price/Average Employee Remuneration Index, rose (deteriorated) slightly by +0.6% in the 2nd quarter of 2014 compared to the level for the previous quarter. This translates into a +2.8% rise on the final quarter of 2013.

The 2nd measure, namely the "Installment Payment Value on a new 100% Bond on the Average Priced House/Average Employee Remuneration Ratio" Index, also rose by +0.6% in the 2nd quarter, which translates into a more noticeable +6.6% rise since the end of 2013. Both indices were driven higher by house price growth exceeding growth in average employee remuneration, while the latter index had the additional upward pressure from the first 50 basis point interest rate hike, which took place in January 2014.

Both affordability indices remain relatively low compared with the 2007/8 peak levels, but 2014 saw the start of an affordability deterioration after prior years of improvement, and this may well cause the Low Income Area Segment of the residential market to outperform the others in 2015, as a very significant number of new market entrants search for affordability.



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