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MARKET ANALYTICS AND
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PROPERTY BAROMETER

FNB House Price Index

Average house price growth surprised on the downside in the 1st quarter of 2018. Western Cape house price growth slowdown plays a role in this

March 2018 saw the FNB House Price Index growing by a slower 1%, year-on-year, down from a revised 2.7% in February, and from 2017's high of 5.1% reached in November.

This implies a weak start to 2018, despite indications of improved national sentiment and an improved economy early in the year.

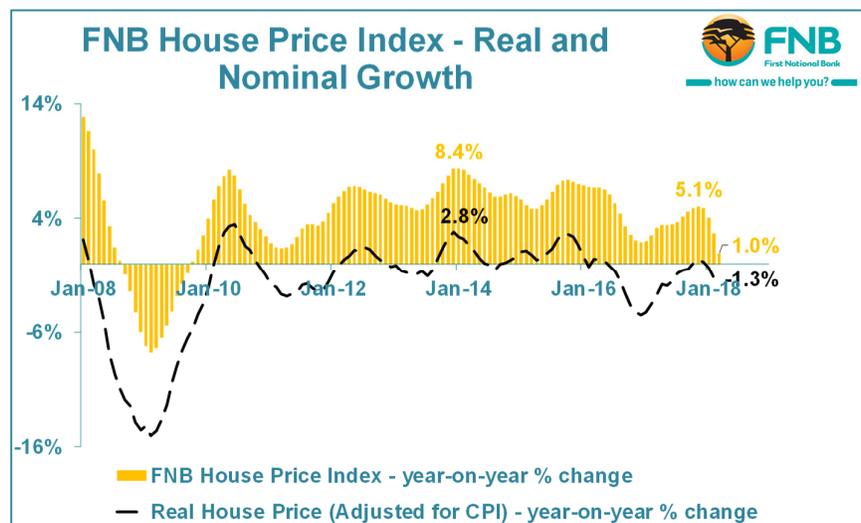
However, one key additional constraint on the national house price growth rate of late has been the "normalization" of house price growth in the Western Cape. Not long ago, that province's relatively strong house price growth was a boost to the national average price growth. Of late, however, its rate has become "pedestrian" like the rest.

MARCH FNB HOUSE PRICE INDEX FINDINGS

From a 2017 revised high of 5.1%, reached in November, the FNB House Price Index's year-on-year growth rate has slowed once more to 1% by March 2018, a further slowing on February's revised rate of 2.7%.

In real terms, when adjusting for CPI (Consumer Price Index) inflation, year-on-year house price deflation of -1.3% was recorded in February (March CPI data not yet available), with CPI inflation in that month measuring 4.0% year-on-year, compared to house price growth of a lesser 2.7%.

The average price of homes transacted in March was R1,097,034.



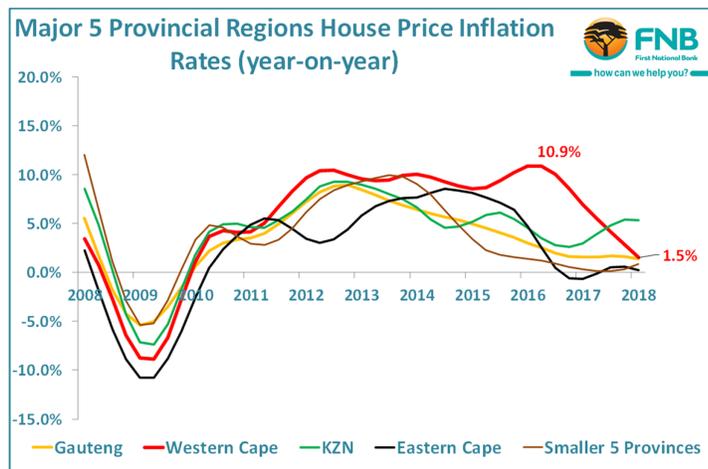
This implies a weak start to 2018, with year-on-year house price growth for the 1st quarter of 2018 recording a mere 2.6%, down from 5% in the final quarter of 2017.

WHILE SENTIMENT AND ECONOMIC CONDITIONS MAY BE IMPROVING, HOUSE PRICE GROWTH MIGHT ONLY RESPOND WITH A LAG

The slowing year-on-year price growth trend seemingly goes against recent indications of improvement in national sentiment. While we still await 1st quarter Consumer Confidence Survey numbers, the RMB-BER Business Confidence Index has already pointed to some moderate strengthening in the 1st quarter of 2018, while the country's Composite Leading Business Cycle Indicators have also been on the rise in recent times, pointing to near term economic improvement. Such economic improvement should ultimately spill over into improved Household Disposable Income growth, which in turn can boost housing demand and housing market strength.

We remain of the belief that such a national market strengthening, albeit a mild one, will still materialize in 2018, but there can be a lag time between when residential demand starts to pick up until when year-on-year house price growth starts to strengthen, and that lag is perhaps what we are still seeing in the 1st quarter of 2018.

WESTERN CAPE NO LONGER A BOOST TO THE NATIONAL AVERAGE



There is, however, a 2nd factor in play here, and this is the Western Cape region, which has defied national “gravity” in recent years to record far stronger house price growth than any other major region. This, until not long ago was a boost for the national average house price growth rate. This boost, however, has steadily fallen away, with the FNB Western Cape House Price Index having slowed to a lowly 1.5% year-on-year growth for the 1st quarter, now below the National Average House Price growth rate of 2.6% for the 1st quarter of 2018.

Given that the Western Cape is the 2nd largest housing market by value, a slowdown in its

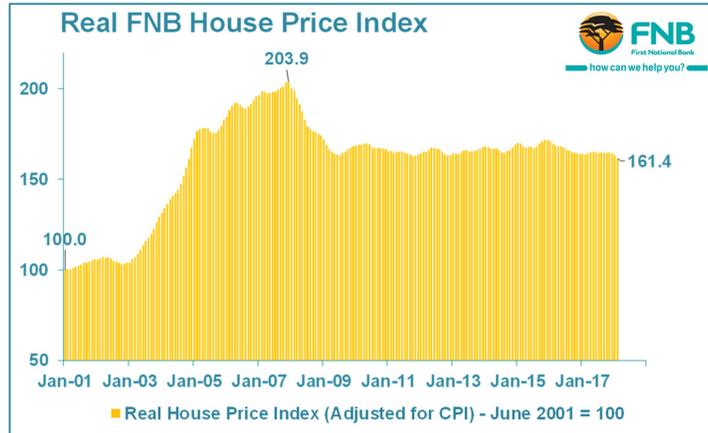
house price growth all the way from 10.9% in the 2nd quarter of 2016 to 1.5% in the 1st quarter of this year makes a major difference to the province's impact on the national average.

The slowing in the Western Cape's house price growth is no surprise, with the region's home values having become relatively unaffordable in recent years, severely restricting the pace of new entrants to its market, and possibly even giving affluent “semi-grants” from other regions in SA 2nd thoughts of late. The province's severe drought may also be starting to play a “cooling” role on its economy as well as on its housing market.

The Western Cape's slowing house price growth has not yet co-incided with an expected strengthening in house price growth in Gauteng. We have been more upbeat about housing market strength to come in Gauteng, the country's largest market, but as yet have not seen this translate into any house price growth acceleration. The FNB Gauteng House Price Index still showed slow year-on-year growth of 1.4% in the 1st quarter of this year.

CONCLUSION

And so we await some “lift” for the national housing market from improved national sentiment and economic performance. The Firstrand economic growth forecast for 2018 is 1.8%, mildly higher than 2017’s recorded 1.3%, and of course we have had an isolated 25 basis point interest rate cut in March by the SARB, a move which may boost home buyer confidence mildly.



But while we wait, the country’s real house price “correction” continues, with house price growth remaining below general inflation as measured by the CPI (Consumer Price Index). In real terms (adjusted for CPI), the FNB House Price Index has declined by -6.1% since December 2015, after some prior mild recovery from 2009 to 2014/15. This 2016/17 real price decline was on the back of a very weak economic growth rate in recent years, along with the lagged impact of interest rate hiking from early-2014 to early-2016.

Viewing the longer term picture, the index is down by -20.9% since the end of 2007, which

marked the final stages of SA’s pre-2008 housing bubble.

The real index remains high by its historic standards, however, still 61.4% up on January 2001, a date just before boom time house prices began to skyrocket.

Monthly FNB House Price Index (Jan 2001 = 100)

Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change
Jan-01	100.0		Jul-05	218.0	26.3%	Jan-10	284.6	4.0%	Jul-14	356.21	6.3%
Feb-01	100.7		Aug-05	218.1	23.5%	Feb-10	287.2	5.6%	Aug-14	356.75	5.9%
Mar-01	101.4		Sep-05	219.1	20.6%	Mar-10	289.6	6.8%	Sep-14	358.59	5.9%
Apr-01	102.4		Oct-05	221.3	17.9%	Apr-10	291.2	7.7%	Oct-14	361.18	6.1%
May-01	103.6		Nov-05	224.1	15.1%	May-10	292.0	8.2%	Nov-14	363.91	6.2%
Jun-01	104.7		Dec-05	227.8	13.0%	Jun-10	291.4	7.8%	Dec-14	366.22	6.0%
Jul-01	105.4		Jan-06	232.0	11.4%	Jul-10	290.0	6.5%	Jan-15	368.15	5.6%
Aug-01	106.0	9.2%	Feb-06	236.6	10.7%	Aug-10	289.3	5.3%	Feb-15	369.69	5.1%
Sep-01	106.5	8.9%	Mar-06	240.8	10.8%	Sep-10	289.6	4.3%	Mar-15	371.23	4.8%
Oct-01	107.1	8.9%	Apr-06	244.0	11.4%	Oct-10	290.0	3.7%	Apr-15	372.89	4.9%
Nov-01	107.9	9.3%	May-06	245.5	12.0%	Nov-10	289.9	3.1%	May-15	374.67	5.2%
Dec-01	109.3	10.1%	Jun-06	245.9	12.5%	Dec-10	289.7	2.4%	Jun-15	376.56	5.7%
Jan-02	110.9	10.9%	Jul-06	246.4	13.0%	Jan-11	289.9	1.9%	Jul-15	378.83	6.4%
Feb-02	112.9	12.1%	Aug-06	247.6	13.5%	Feb-11	291.5	1.5%	Aug-15	381.50	6.9%
Mar-02	114.8	13.2%	Sep-06	249.6	13.9%	Mar-11	293.6	1.4%	Sep-15	384.92	7.3%
Apr-02	116.2	13.6%	Oct-06	252.0	13.8%	Apr-11	295.5	1.5%	Oct-15	387.82	7.4%
May-02	117.1	13.1%	Nov-06	254.8	13.7%	May-11	297.2	1.8%	Nov-15	390.16	7.2%
Jun-02	117.5	12.2%	Dec-06	258.2	13.3%	Jun-11	298.3	2.4%	Dec-15	391.94	7.0%
Jul-02	117.7	11.7%	Jan-07	261.4	12.7%	Jul-11	299.1	3.1%	Jan-16	393.42	6.9%
Aug-02	117.9	11.3%	Feb-07	264.1	11.6%	Aug-11	299.5	3.5%	Feb-16	394.78	6.8%
Sep-02	118.2	11.0%	Mar-07	266.1	10.5%	Sep-11	299.6	3.5%	Mar-16	396.21	6.7%
Oct-02	118.8	10.9%	Apr-07	267.9	9.8%	Oct-11	299.8	3.4%	Apr-16	397.82	6.7%
Nov-02	119.5	10.7%	May-07	270.1	10.0%	Nov-11	300.7	3.7%	May-16	399.05	6.5%
Dec-02	120.5	10.3%	Jun-07	273.1	11.1%	Dec-11	302.6	4.5%	Jun-16	399.46	6.1%
Jan-03	121.9	9.9%	Jul-07	276.1	12.0%	Jan-12	305.5	5.4%	Jul-16	399.11	5.4%
Feb-03	123.9	9.7%	Aug-07	279.0	12.7%	Feb-12	308.8	5.9%	Aug-16	398.28	4.4%
Mar-03	126.3	10.0%	Sep-07	282.2	13.1%	Mar-12	312.4	6.4%	Sep-16	397.72	3.3%
Apr-03	129.0	11.0%	Oct-07	285.9	13.5%	Apr-12	315.5	6.8%	Oct-16	397.85	2.6%
May-03	131.6	12.3%	Nov-07	290.0	13.8%	May-12	317.6	6.9%	Nov-16	398.42	2.1%
Jun-03	134.1	14.2%	Dec-07	293.3	13.6%	Jun-12	318.5	6.8%	Dec-16	399.48	1.9%
Jul-03	136.8	16.2%	Jan-08	295.0	12.8%	Jul-12	318.6	6.5%	Jan-17	401.50	2.1%
Aug-03	139.1	17.9%	Feb-08	294.9	11.6%	Aug-12	318.4	6.3%	Feb-17	404.81	2.5%
Sep-03	141.3	19.6%	Mar-08	292.7	10.0%	Sep-12	318.3	6.2%	Mar-17	408.85	3.2%
Oct-03	144.0	21.3%	Apr-08	289.2	7.9%	Oct-12	318.0	6.1%	Apr-17	411.55	3.5%
Nov-03	147.1	23.1%	May-08	285.3	5.6%	Nov-12	318.0	5.7%	May-17	412.80	3.4%
Dec-03	150.7	25.0%	Jun-08	282.1	3.3%	Dec-12	318.9	5.4%	Jun-17	413.45	3.5%
Jan-04	154.4	26.7%	Jul-08	280.1	1.5%	Jan-13	321.5	5.3%	Jul-17	413.91	3.7%
Feb-04	158.3	27.8%	Aug-08	279.8	0.3%	Feb-13	324.8	5.2%	Aug-17	414.95	4.2%
Mar-04	162.0	28.3%	Sep-08	279.7	-0.9%	Mar-13	328.4	5.1%	Sep-17	416.15	4.6%
Apr-04	165.1	27.9%	Oct-08	279.1	-2.4%	Apr-13	331.1	4.9%	Oct-17	417.37	4.9%
May-04	167.5	27.3%	Nov-08	277.7	-4.3%	May-13	332.7	4.8%	Nov-17	418.57	5.1%
Jun-04	169.8	26.6%	Dec-08	275.8	-6.0%	Jun-13	333.9	4.8%	Dec-17	419.03	4.9%
Jul-04	172.5	26.2%	Jan-09	273.7	-7.2%	Jul-13	335.2	5.2%	Jan-18	417.85	4.1%
Aug-04	176.6	27.0%	Feb-09	271.9	-7.8%	Aug-13	336.8	5.8%	Feb-18	415.70	2.7%
Sep-04	181.7	28.6%	Mar-09	271.1	-7.4%	Sep-13	338.6	6.4%	Mar-18	412.91	1.0%
Oct-04	187.8	30.4%	Apr-09	270.5	-6.5%	Oct-13	340.5	7.1%			
Nov-04	194.7	32.3%	May-09	269.8	-5.4%	Nov-13	342.6	7.8%			
Dec-04	201.7	33.9%	Jun-09	270.4	-4.2%	Dec-13	345.6	8.3%			
Jan-05	208.2	34.9%	Jul-09	272.2	-2.9%	Jan-14	348.5	8.4%			
Feb-05	213.7	34.9%	Aug-09	274.8	-1.8%	Feb-14	351.6	8.2%			
Mar-05	217.4	34.2%	Sep-09	277.5	-0.8%	Mar-14	354.1	7.8%			
Apr-05	219.1	32.7%	Oct-09	279.7	0.2%	Apr-14	355.6	7.4%			
May-05	219.2	30.8%	Nov-09	281.3	1.3%	May-14	356.3	7.1%			
Jun-05	218.6	28.8%	Dec-09	282.8	2.5%	Jun-14	356.3	6.7%			

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 “Full Title 3 Bedroom volumes remain unchanged from one month to the next, but Sectional Title 1 Bedroom and Less (the cheapest segment 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.

AVERAGE HOUSE PRICE BY MAJOR PROVINCIAL REGION

	2014	2015	2016	2017	Q2-2017	Q3-2017	Q4-2017	Q1-2018
MAJOR PROVINCIAL REGION AVERAGE HOUSE PRICE								
Gauteng Average House Price (Rand)	991 833	1 034 321	1 058 039	1 070 654	1 073 325	1 078 145	1 081 495	1 083 039
- year-on-year % change	5.9%	4.3%	2.3%	1.2%	1.6%	1.7%	1.7%	1.4%
- quarter-on-quarter % change					0.5%	0.4%	0.3%	0.1%
Western Cape Average House Price (Rand)	1 152 159	1 258 706	1 385 305	1 444 800	1 451 500	1 458 709	1 461 723	1 460 223
- year-on-year % change	9.5%	9.2%	10.1%	4.3%	5.5%	4.2%	2.9%	1.5%
- quarter-on-quarter % change					0.9%	0.5%	0.2%	-0.1%
KZN Average House Price (Rand)	949 379	1 003 283	1 036 975	1 066 179	1 073 875	1 089 694	1 103 681	1 115 012
- year-on-year % change	5.3%	5.7%	3.4%	2.8%	3.9%	4.8%	5.4%	5.3%
- quarter-on-quarter % change					1.5%	1.5%	1.3%	1.0%
Eastern Cape Average House Price (Rand)	758 684	814 419	828 855	828 522	829 339	830 645	830 538	829 843
- year-on-year % change	8.2%	7.3%	1.8%	0.0%	-0.1%	0.5%	0.6%	0.3%
- quarter-on-quarter % change					0.2%	0.2%	0.0%	-0.1%
Minor 5 Provinces Average House Price (Rand)	786 686	804 614	812 744	813 840	813 744	814 516	816 717	821 147
- year-on-year % change	7.0%	2.3%	1.0%	0.1%	0.2%	0.2%	0.3%	0.9%
- quarter-on-quarter % change					0.0%	0.1%	0.3%	0.5%

*Minor 5 Provinces include - Free State, Mpumalanga, Limpopo, North West and Northern Cape

AVERAGE HOUSE PRICE BY MAJOR METRO REGION

	2014	2015	2016	2017	Q2-2017	Q3-2017	Q4-2017	Q1-2018
MAJOR METRO REGION AVERAGE HOUSE PRICE								
City of Joburg Average House Price (Rand)	1 092 660	1 128 711	1 146 079	1 167 764	1 172 097	1 179 091	1 182 125	1 181 947
- year-on-year % change	6.2%	3.3%	1.5%	1.9%	2.6%	2.7%	2.3%	1.6%
- quarter-on-quarter % change					0.7%	0.6%	0.3%	0.0%
City of Tshwane Average House Price (Rand)	886 298	939 356	990 830	1 013 709	1 096 831	1 102 762	1 111 593	1 122 365
- year-on-year % change	7.8%	6.0%	5.5%	2.3%	0.8%	1.3%	2.0%	2.7%
- quarter-on-quarter % change					0.4%	0.5%	0.8%	1.0%
Ekurhuleni Average House Price (Rand)	915 795	948 261	972 871	989 318	991 709	995 256	997 733	999 883
- year-on-year % change	7.0%	3.5%	2.6%	1.7%	2.3%	2.0%	1.6%	1.3%
- quarter-on-quarter % change					0.5%	0.4%	0.2%	0.2%
City of Cape Town Average House Price (Rand)	1 184 736	1 307 494	1 442 081	1 531 858	1 546 687	1 572 922	1 593 682	1 607 824
- year-on-year % change	11.7%	10.4%	10.3%	6.2%	8.3%	8.0%	7.2%	6.0%
- quarter-on-quarter % change					2.0%	1.7%	1.3%	0.9%
Ethekwini Average House Price (Rand)	918 321	943 451	943 432	945 432	948 467	955 641	963 131	965 004
- year-on-year % change	3.4%	2.7%	0.0%	0.2%	0.4%	1.6%	2.5%	2.4%
- quarter-on-quarter % change					0.6%	0.8%	0.8%	0.2%
Nelson Mandela Bay Average House Price (Rand)	717 944	774 387	798 753	787 297	785 236	777 627	763 032	743 432
- year-on-year % change	7.3%	7.9%	3.1%	-1.4%	-2.2%	-2.5%	-3.7%	-5.8%
- quarter-on-quarter % change					-0.5%	-1.0%	-1.9%	-2.6%