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PROPERTY BAROMETER

FNB House Price Index

Early signs of the positive national sentiment shift impacting on national house price trends

May 2018 saw the FNB House Price Index growing by a faster 4.6%, year-on-year, up from the previous month's 3.8% in April, and from a February 2018 low of 2.8%. This 3rd consecutive month of house price growth acceleration is an early sign that significantly improved sentiment in South Africa early in 2018 is beginning to impact positively on the housing market and house price growth.

The early-2018 market strengthening has also been seen in other non-price FNB indicators, notably the increased FNB Estate Agent Survey's Residential Activity Rating, as well as in a shorter estimated average time of homes on the market prior to sale in the 1st quarter of this year.

A CHANGE IN THE FNB HOUSE PRICE INDEX

After careful consideration, we have changed, from using the FNB "Stratified Mean" House Price Index as our main index, to using the FNB "Repeat Sales" House Price Index as our new primary index.

The reasoning is that, after certain system and dataset "migrations and mergers" within FNB, the concern is that there may be "structural changes" in the data when using the average price approach. Such issues can never be entirely avoided, but we feel they would be minimized using the Repeat Sales Methodology in which unique homes' prices are only compared with the same home's previous transaction value.

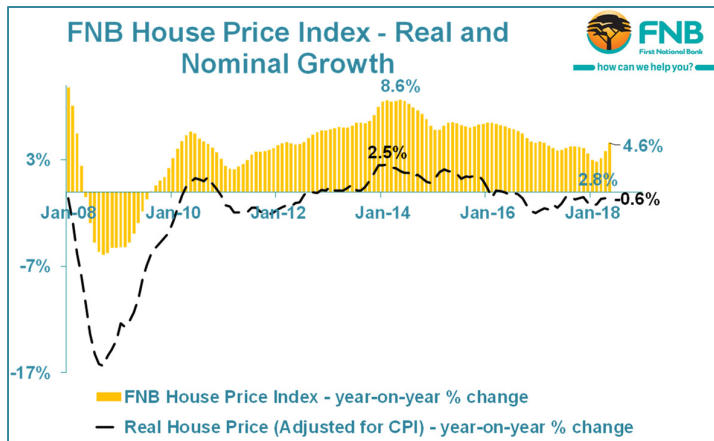
Unlike the deeds office dataset, the FNB valuations dataset can avoid commercial properties, while also avoiding including initial social housing registrations (often registered at the deeds office at non-market related values), which could significantly distort the repeat sales picture.

Admittedly, though, even though the Repeat Sales methodology attempts to compare "apples with apples" by comparing each unique home with its own previous value, one can never hope to entirely eliminate the impact of alterations and upgrades on a home's value between 2 transactions.

The FNB Repeat Sales House Price Index has been one of our repertoire of national house price indices for some years, and is based on the well-known Case-Shiller methodology as used to compile the Standard & Poor's Case-Shiller Home Price Indices in the United States.

We will continue to compile our repertoire of National FNB House Price Indices, including the Stratified Mean, Stratified Median, Simple Mean and Simple Median, Hedonic and our FNB "Long History" Repeat Sales Index compiled from deeds data and dating back to 1980. But the monthly FNB Repeat Sales House Price Index now becomes the favoured index, and will be published monthly.

FNB HOUSE PRICE INDEX RESULTS FOR MAY 2018 – RENEWED ACCELERATION



In recent years, the FNB House Price Index underwent a broad multi-year slowdown in year-on-year growth, all the way from an 8.6% high as at May 2014 to a lowly 2.8% by February 2018.

Initially, rising interest rates from January 2014 to January 2016 were seen as the key cause of slowing growth. Thereafter, very weak economic growth arguably played the key role, and by 2017 very weak domestic Consumer Confidence, possibly inspired by adverse political conditions at the time.

But sentiment appeared to turn significantly more positive late in 2017 after a change in

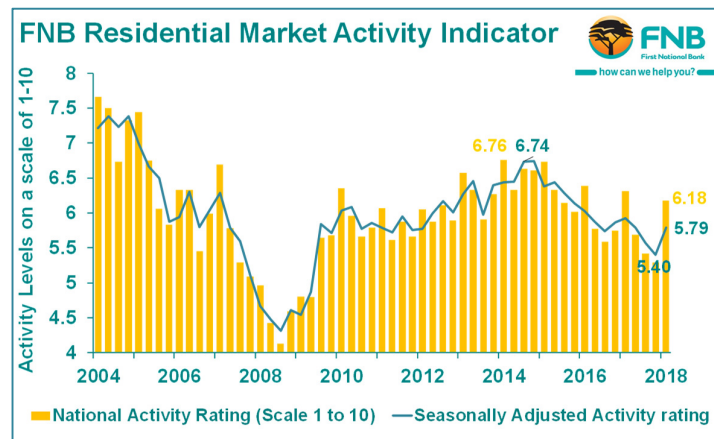
leadership in the country's ruling party, followed by an early-2018 change in the country's president. Add to this a mild acceleration in year-on-year economic growth rates as the quarters ticked by in 2017, and a further 25 basis point interest rate cut in the 1st quarter of 2018, and that should be expected to translate into some form of Housing Market strengthening.

Some Housing Market strengthening would thus appear to make sense, given the general environment.

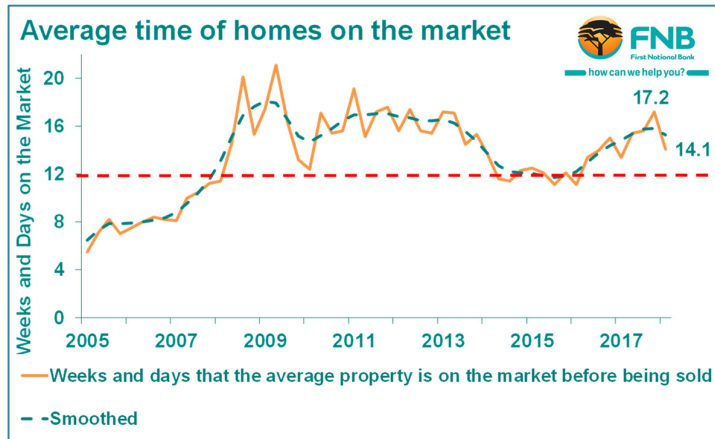
Therefore, not surprisingly, we have started to see something of an uptick in year-on-year house price growth in recent months, from that low of 2.8% in February 2018 to 4.6% in May 2018.

OTHER FNB INDICATORS ALSO POINT TO EARLY-2018 HOUSING MARKET STRENGTHENING

While it is too early to draw conclusions regarding any sustained recovery in the housing market, there are other FNB indicators which also pointed to early signs of strengthening early in 2018.

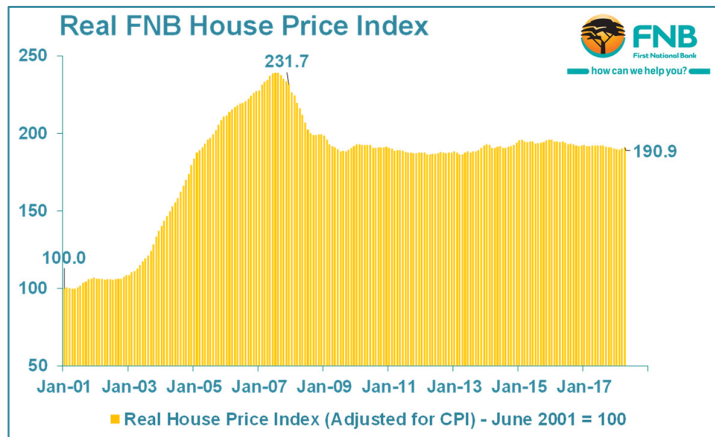


Strengthening was witnessed in our own FNB Estate Agent Survey, with agents reporting a significant jump in residential market activity in the February 2018 quarterly survey. In the survey, we ask respondents to provide a rating of market activity in their areas, a subjective rating on a scale of 1 to 10. After a broad decline through 2015 to 2017, the 1st quarter 2018 FNB Activity Rating jumped noticeably from 5.29 in the previous quarter to 6.18. Even on a seasonally adjusted basis, the jump was the most noticeable in over 3 years, from 5.4 in the prior quarter to 5.79.



Further support for the perception of a strengthened Housing Market in the 1st quarter of 2018 was provided by a shortening in the estimated average time of homes on the market prior to sale, from 17 weeks and 2 days in the final quarter of 2017 to 14 weeks and 1 day, according to the Estate Agent Survey.

REAL HOUSE PRICE PERFORMANCE



At 4.6% year-on-year, house price growth is near to being positive in real terms, when adjusting for CPI (Consumer Price Index) inflation. Real, year-on-year house price deflation of -0.6% was recorded in April (May CPI data not yet available), with CPI inflation in that month measuring 4.5% year-on-year and house price growth 3.8%. But the May house price growth rate of 4.6% appears to be fast catching up with CPI inflation.

Examining the longer run performance of the FNB Repeat Sales House Price Index, we still see it at relatively expensive levels, 90.9% up on the

January 2001 “pre-boom” index level. This is despite significant cumulative “correction” of -20.1% since the all-time real high reached in August 2007 at the back end of the pre-2008 Housing Bubble.

CONCLUSION

We remain of the belief that average house price growth will be mildly faster in 2018 as a whole compared to 2017. The average price growth rate for 2017 was 4.2% using the FNB Repeat Sales House Price Index, which reflected the 3rd successive year of average house price growth slowing.

2018 is expected to be stronger on the back of a further small interest rate reduction as well as leading indicators having pointed towards further strengthening in economic growth as we’ve moved into 2018. Furthermore, a noticeable improvement in domestic consumer and business sentiment alike, an improvement which is seemingly linked to the recent political leadership changes in the country, can further support housing demand in the near term.

We thus expect average house price growth to be in the 5-6% range for 2018 as a whole, which would imply some mildly positive real house price growth given the FNB CPI inflation forecast of 4.9% for the year.

Monthly FNB House Price Index (Jan 2001 = 100)



how can we help you?

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	243.9	28.8%	Jan-10	325.5	3.2%	Jul-14	411.89	8.2%
Feb-01	100.8	-1.8%	Aug-05	247.9	27.8%	Feb-10	327.6	4.1%	Aug-14	413.13	7.9%
Mar-01	101.0	-0.7%	Sep-05	252.0	26.9%	Mar-10	329.1	4.8%	Sep-14	414.57	7.7%
Apr-01	101.1	-0.4%	Oct-05	256.2	25.7%	Apr-10	330.1	5.3%	Oct-14	416.00	7.3%
May-01	101.7	-0.6%	Nov-05	260.0	23.9%	May-10	330.8	5.7%	Nov-14	417.86	6.8%
Jun-01	102.7	0.6%	Dec-05	263.1	21.7%	Jun-10	330.6	5.5%	Dec-14	420.10	6.2%
Jul-01	104.0	3.0%	Jan-06	265.9	19.8%	Jul-10	329.9	5.0%	Jan-15	422.94	5.8%
Aug-01	105.5	5.9%	Feb-06	268.9	18.4%	Aug-10	329.9	4.7%	Feb-15	426.31	5.8%
Sep-01	106.8	8.6%	Mar-06	272.0	17.6%	Sep-10	330.7	4.5%	Mar-15	429.88	6.2%
Oct-01	108.1	10.6%	Apr-06	275.3	17.3%	Oct-10	331.5	4.2%	Apr-15	432.92	6.5%
Nov-01	109.2	11.6%	May-06	278.6	17.3%	Nov-10	332.1	3.7%	May-15	435.10	6.6%
Dec-01	110.4	11.8%	Jun-06	282.1	17.3%	Dec-10	332.7	3.1%	Jun-15	436.67	6.4%
Jan-02	111.5	11.5%	Jul-06	285.5	17.1%	Jan-11	333.5	2.5%	Jul-15	437.62	6.2%
Feb-02	112.8	11.9%	Aug-06	288.9	16.6%	Feb-11	334.7	2.2%	Aug-15	438.51	6.1%
Mar-02	113.9	12.8%	Sep-06	292.0	15.9%	Mar-11	336.0	2.1%	Sep-15	439.65	6.0%
Apr-02	115.1	13.8%	Oct-06	294.9	15.1%	Apr-11	337.9	2.4%	Oct-15	441.67	6.2%
May-02	116.1	14.2%	Nov-06	297.3	14.3%	May-11	339.4	2.6%	Nov-15	444.17	6.3%
Jun-02	117.1	14.0%	Dec-06	299.8	14.0%	Jun-11	340.5	3.0%	Dec-15	446.89	6.4%
Jul-02	118.1	13.6%	Jan-07	303.2	14.0%	Jul-11	341.4	3.5%	Jan-16	450.25	6.5%
Aug-02	119.3	13.1%	Feb-07	307.4	14.3%	Aug-11	342.2	3.7%	Feb-16	453.91	6.5%
Sep-02	121.0	13.2%	Mar-07	312.7	15.0%	Sep-11	343.3	3.8%	Mar-16	457.35	6.4%
Oct-02	122.7	13.5%	Apr-07	318.6	15.7%	Oct-11	344.2	3.8%	Apr-16	460.05	6.3%
Nov-02	124.4	13.9%	May-07	324.1	16.3%	Nov-11	345.1	3.9%	May-16	461.96	6.2%
Dec-02	125.8	14.0%	Jun-07	328.9	16.6%	Dec-11	346.4	4.1%	Jun-16	462.78	6.0%
Jan-03	127.3	14.1%	Jul-07	332.2	16.4%	Jan-12	348.1	4.4%	Jul-16	463.35	5.9%
Feb-03	129.2	14.6%	Aug-07	333.9	15.6%	Feb-12	350.0	4.6%	Aug-16	463.46	5.7%
Mar-03	131.5	15.4%	Sep-07	334.5	14.5%	Mar-12	351.7	4.7%	Sep-16	463.66	5.5%
Apr-03	133.7	16.2%	Oct-07	334.1	13.3%	Apr-12	353.2	4.5%	Oct-16	463.96	5.0%
May-03	135.9	17.1%	Nov-07	333.4	12.1%	May-12	354.5	4.4%	Nov-16	465.04	4.7%
Jun-03	138.4	18.2%	Dec-07	333.2	11.1%	Jun-12	355.9	4.5%	Dec-16	467.56	4.6%
Jul-03	140.7	19.2%	Jan-08	332.9	9.8%	Jul-12	357.3	4.7%	Jan-17	471.38	4.7%
Aug-03	143.4	20.2%	Feb-08	332.2	8.1%	Aug-12	359.4	5.0%	Feb-17	474.88	4.6%
Sep-03	146.7	21.3%	Mar-08	329.8	5.5%	Sep-12	361.8	5.4%	Mar-17	477.17	4.3%
Oct-03	150.7	22.8%	Apr-08	326.3	2.4%	Oct-12	363.5	5.6%	Apr-17	478.86	4.1%
Nov-03	155.0	24.6%	May-08	322.6	-0.5%	Nov-12	364.9	5.7%	May-17	479.80	3.9%
Dec-03	159.5	26.8%	Jun-08	319.3	-2.9%	Dec-12	366.3	5.8%	Jun-17	480.91	3.9%
Jan-04	164.5	29.2%	Jul-08	316.4	-4.7%	Jan-13	368.6	5.9%	Jul-17	482.24	4.1%
Feb-04	169.5	31.1%	Aug-08	314.9	-5.7%	Feb-13	370.9	6.0%	Aug-17	483.29	4.3%
Mar-04	173.9	32.3%	Sep-08	314.7	-5.9%	Mar-13	373.1	6.1%	Sep-17	483.52	4.3%
Apr-04	178.0	33.2%	Oct-08	314.9	-5.7%	Apr-13	374.5	6.0%	Oct-17	483.53	4.2%
May-04	181.7	33.7%	Nov-08	315.8	-5.3%	May-13	375.9	6.0%	Nov-17	484.02	4.1%
Jun-04	185.4	33.9%	Dec-08	315.7	-5.3%	Jun-13	378.0	6.2%	Dec-17	484.39	3.6%
Jul-04	189.4	34.6%	Jan-09	315.5	-5.2%	Jul-13	380.5	6.5%	Jan-18	485.42	3.0%
Aug-04	193.9	35.2%	Feb-09	314.8	-5.2%	Aug-13	382.8	6.5%	Feb-18	488.18	2.8%
Sep-04	198.6	35.4%	Mar-09	314.2	-4.8%	Sep-13	385.0	6.4%	Mar-18	492.18	3.1%
Oct-04	203.9	35.3%	Apr-09	313.5	-3.9%	Oct-13	387.7	6.6%	Apr-18	497.29	3.8%
Nov-04	209.8	35.4%	May-09	313.1	-3.0%	Nov-13	391.2	7.2%	May-18	501.78	4.6%
Dec-04	216.1	35.4%	Jun-09	313.5	-1.8%	Dec-13	395.5	8.0%			
Jan-05	221.9	34.9%	Jul-09	314.2	-0.7%	Jan-14	399.8	8.5%			
Feb-05	227.0	33.9%	Aug-09	315.1	0.0%	Feb-14	402.8	8.6%			
Mar-05	231.3	32.9%	Sep-09	316.5	0.6%	Mar-14	404.7	8.5%			
Apr-05	234.6	31.8%	Oct-09	318.3	1.1%	Apr-14	406.5	8.5%			
May-05	237.5	30.7%	Nov-09	320.2	1.4%	May-14	408.3	8.6%			
Jun-05	240.4	29.7%	Dec-09	322.7	2.2%	Jun-14	410.3	8.6%			

ADDENDUM - NOTES:

Note on The FNB House Price Index:

The FNB Repeat Sales House Price Index has been one of our repertoire of national house price indices for some years, and is based on the well-known Case-Shiller methodology which is used to compile the Standard & Poor's Case-Shiller Home Price Indices in the United States.

This "repeat sales approach" is based on measuring the rate of change in the prices of individual houses between 2 points in time, based on when the individual homes are transacted. This means that each house price in any month's sample is compared with its own previous transaction value. The various price inflation rates of individual homes are then utilized to compile the average price inflation rate of the index over time.

The index is compiled from FNB's own valuations database, thus based on the residential properties financed by FNB over the past 18 years.

We apply certain "filters" and cut-offs to eliminate "outliers" in the data. They main ones are as follows:

- The maximum price cut-off is R15m, and the lower price cut-off is R20,000.
- The top 5% of repeat sales price growth rates, and the bottom 5% of growth rates are excluded from the data set.
- Repeat transactions that took place longer than 10 years after the previous transaction on the same home are excluded, as are repeat transactions that took place less than 6 months after the previous transaction on the same home.
- The index is very lightly smoothed using a Hodrick-Prescott smoothing function with a Lambda of 5.