

3 March 2014

PROPERTY BAROMETER

- Residential Property Monthly

February 2014 House Price Index grew slightly slower than the revised January rate, but the market remains solid by all reports.

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FEBRUARY 2014 HOUSE PRICE INDEX FINDINGS

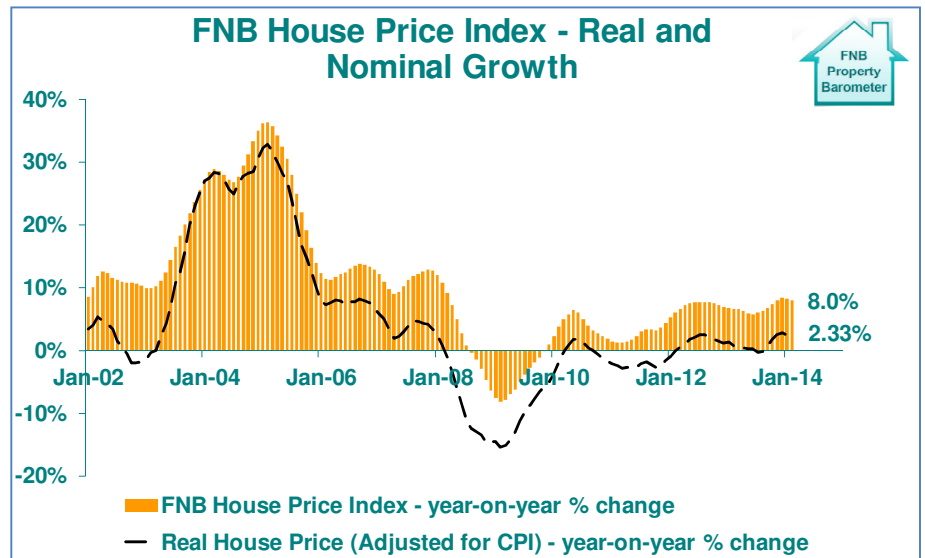
According to the FNB House Price Index, the average house price for February 2014 rose 8% year-on-year. This is very slightly lower than a revised 8.2% January house price inflation rate, and the 2nd consecutive month of mild slowdown in price growth.

Real house price growth (i.e. when house prices are adjusted for consumer price inflation), came in at 2.33% year-on-year in January (February CPI not yet available). This also represents a slight slowing from 2.83% real price growth in December, due to the combination of a slight slowing in nominal house price growth from the 8.4% rate of December to 8.2% in January, along with a rise in CPI inflation from December's 5.4% to 5.8%.

The average price of homes transacted was R935,332.

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In real terms, the FNB House Price Index remained well-above levels of a decade ago, up 27.8% from January 2004. However, compared with last decade's real average price peak, reached in December 2007, the December 2013 real price was still -17.9% lower.

In nominal terms, the February 2014 average price was 119.47% higher than the February 2004 price level, but only 18.1% above the December 2007 level.

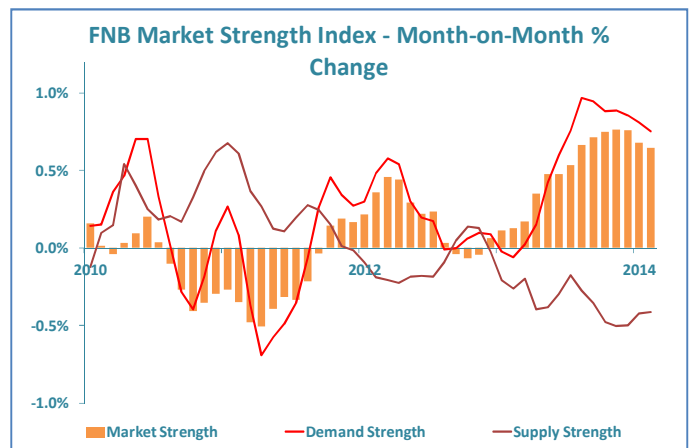
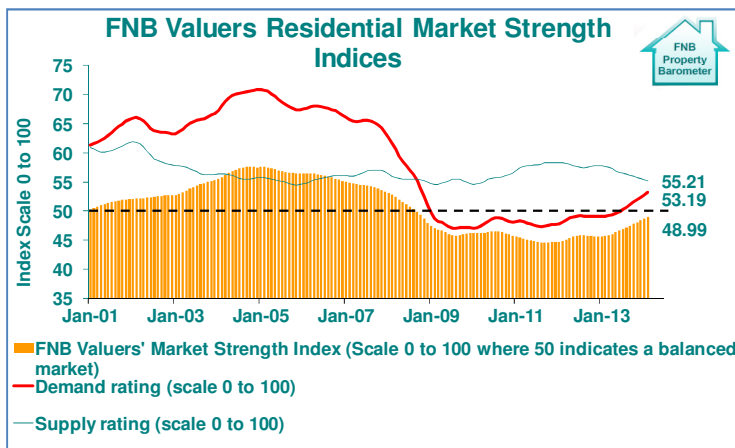
FNB'S VALUERS STILL POINTED TO FURTHER IMPROVEMENT IN MARKET STRENGTH IN FEBRUARY, BUT THE PACE OF IMPROVEMENT MAY BE SLOWING

The FNB Valuers' Market Strength Index (Explanatory notes on page 5) has not yet quite reached the crucial level of 50, implying that the valuers' aggregated supply rating is stronger than the demand rating. But the index nevertheless did point to further improvement in the market demand-supply balance in February 2014, to reach a level of 48.99.

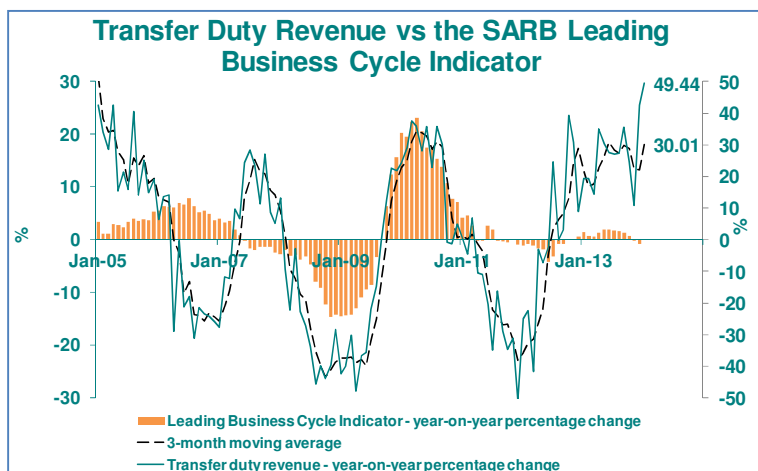
The increase in the Market Strength Index continued to be fuelled by the combination of growth in demand along with mounting supply constraints, as reflected in a rising Demand Rating and declining Supply Rating.

The trend in the improving Market Strength Index may appear in contradiction to the past 2 months of slightly slowing in house price inflation. However, that is not necessarily true. House price growth, although indeed slightly slower, is still positive in real terms, which should imply a strengthening market. Rather, slower but still positive real house price growth may merely represent a slightly slower pace of market improvement, but improvement nevertheless. And if we examine the month-on-month seasonally adjusted percentage change in the FNB Valuers Market Strength Index instead, indeed we do see a slightly slower rate of strengthening in the past 3 months, with the Demand Rating pace of growth having slowed mildly, while the Supply Rating's pace of decline has also slowed slightly.

Therefore, FNB's panel of valuers may not be entirely out of line with the House Price Index, still perceiving a market strengthening, but merely perceiving it to now be taking place at a slightly slower rate of improvement than that of a few months ago



OUTLOOK

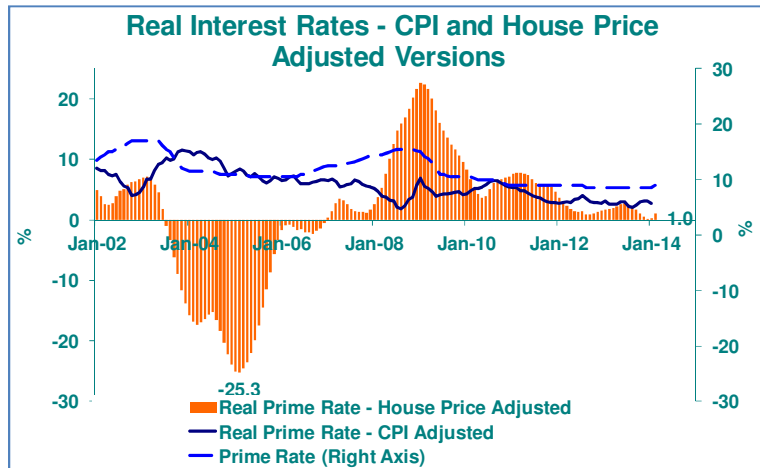


Despite some slight slowing in the year-on-year inflation rate of the FNB House Price Index, an 8% rate for February remains a number reflective of a solid market. And indeed, should this indicator be insufficient evidence of this, Friday's release of January SARS property transfer duty revenue, which reached a 49.4% year-on-year growth rate in value in that month is definitely supportive of such an assertion.

However, both the House Price Index as well as the month-on-month rate of change in the FNB Valuers Market Strength Index point to a mild slowing in the pace of market strengthening in the past 2 months or so.

It must also be said that it is probably too early for the February FNB data to be reflective of any slowing impact that the late-January interest rate hike may have had. In addition, the year-on-year growth rate in the SARB Leading Business Cycle Indicator as at December turned slightly negative too, suggesting ongoing economic mediocrity.

With these factors in mind, along with our expectation that interest rates may rise a little further to where Prime Rate ends 2014 at 10%, we would expect the pace of market strengthening to slow in the coming months, resulting in further mild slowing in average house price inflation as the year progresses. The extent of the price growth tapering expected would be back down to a rate of 5-6% by year-end, slightly below CPI inflation which is expected to end the year just above 6%.



Finally, the combination of 8% house price growth and a slightly higher 9% Prime Rate should continue to keep the market by-and-large healthy in terms of containing levels of speculative activity. Our alternative measure of Real Prime Rate, using house prices with which to adjust prime rate instead of using CPI, is admittedly on the low side at 1% in February. However, it remains mildly positive, still keeping the market away from the strongly negative rate of 2004-5 which supported short term speculative activity on a large scale.

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	2011	2012	2013	Q1-2013	Q2-2013	Q3-2013	Q4-2013	Nov-13	Dec-13	Jan-14	Feb-14
Residential Property Prices											
FNB National Average House Price (Rand)	780 385	835 479	891 556	866 352	887 361	898 397	914 115	913 578	920 586	927 524	935 332
<i>y/y % change</i>	2.5	7.1	6.7	6.6	6.0	6.3	7.9	8.0	8.4	8.2	8.0
<i>m/m seasonally-adjusted % change</i>								0.52	1.07	0.59	0.42
FNB Valuers Demand Strength Index	47.75	48.85	50.32	49.11	49.57	50.65	51.96	51.98	52.36	52.73	53.19
<i>y/y % change</i>	-0.7	2.3	3.0	2.0	1.2	3.1	5.8	5.8	6.6	7.5	8.4
<i>m/m % change</i>								0.80	0.73	0.71	0.88
FNB Valuers Supply Strength Index	57.91	57.85	56.67	57.66	56.92	56.32	55.77	55.78	55.546	55.385	55.214
<i>y/y % change</i>	4.3	-0.1	-2.0	-1.1	-1.6	-2.0	-3.4	-3.5	-3.9	-4.1	-4.3
<i>m/m % change</i>								-0.38	-0.42	-0.29	-0.31
FNB Valuers Market Strength Index	44.92	45.5	46.83	45.73	46.32	47.17	48.1	48.1	48.4	48.67	48.99
<i>y/y % change</i>	-2.9	1.3	2.9	1.8	1.7	2.9	5.3	5.3	6.0	6.6	7.2
<i>m/m % change</i>								0.66	0.64	0.55	0.65
Major Metro Areas Average House Price (Rand)	940 915	969 587	1 030 888	1 007 366	1 024 461	1 038 723	1 053 003				
<i>y/y % change</i>	3.7	3.0	6.3	5.8	6.7	6.6	6.2				
- Upper Income Area Average House Price (Rand)	1 870 624	1 912 547	2 028 079	1 997 544	2 024 859	2 040 408	2 049 507				
<i>y/y % change</i>	3.7	2.2	6.0	6.4	7.2	6.2	4.3				
- Middle Income Area Average House Price (Rand)	1 089 226	1 131 065	1 200 262	1 177 202	1 194 878	1 207 808	1 221 161				
<i>y/y % change</i>	3.6	3.8	6.1	6.1	6.6	6.2	5.6				
- Lower Income Area Average House Price (Rand)	714 269	736 535	785 354	761 977	777 378	792 633	809 429				
<i>y/y % change</i>	3.7	3.1	6.6	5.4	6.3	7.0	7.8				
- Affordable Area Average House Price (Rand)	375 492	389 900	413 514	404 277	410 868	416 728	422 183				
<i>y/y % change</i>	5.4	3.8	6.1	5.4	6.1	6.5	6.2				
- Major 3 Provinces' Former Black Township Average House Price (Rand)	255 515	261 820	278 742	270 884	276 764	281 369	285 952				
<i>y/y % change</i>	7.9	2.5	6.5	4.8	6.3	7.1	7.6				
- Coastal Holiday Towns Average House Price (Rand)	793 053	800 275	801 228	795 744	797 506	799 662	811 999				
<i>y/y % change</i>	-4.5	0.9	0.1	-0.3	-1.1	-0.2	2.0				
FNB Estate Agent Survey											
Level of Residential Demand Activity (Scale 1 to 10)	5.8	5.98	6.27	6.57	6.33	5.91	6.27				
<i>y/y % change</i>	-2.3	3.1	4.8	8.6	7.8	-3.3	6.5				
First time buyers as a percentage of total buyers (%)	23.0	23.0	22.5	24.0	22.0	20.0	24.0				
Buy-to-let as a percentage of total buyers (%)	8.0	9.3	7.8	8.0	8.0	7.0	8.0				
Average time of properties on the market (Weeks and Days)	17.3	16.0	16.0	17.2	17.1	14.5	15.3				
Percentage of properties sold at less than asking price (%)	88.3	86.0	88.0	89.0	90.0	88.0	85.0				
Percentage of properties on the market for 3 months or more (%)	80.5	77.5	74.5	75.0	74.0	75.0	74.0				
Residential Building Sector											
Number of units' plans passed	52 824	49 820	50 484	11 832	13 772	12 616	12 264	3 813	3 050		
<i>y/y % change</i>	10.3	-5.7	1.3	5.5	15.8	-5.7	-8.1	-31.4	23.4		
Square metres' worth of plans passed	6 248 810	6 246 397	6 654 430	1 520 260	1 798 633	1 734 848	1 600 689	514 735	413 335		
<i>y/y % change</i>	5.7	-0.0	6.5	11.0	18.8	2.2	-3.9	-23.0	9.9		
Average size of units' plans passed (square metres)	118.3	125.4	131.8	128.5	130.6	137.5	130.5	135	136		
Number of units completed	40 507	42 978	41 398	10 462	10 417	10 064	10 455	3 328	2 489		
<i>y/y % change</i>	-0.4	6.1	-3.7	10.1	0.8	-8.9	-13.6	-30.1	-33.3		
Square metres' worth of buildings completed	4676203.0	4813164.0	4879270.0	1123559.0	1243478.0	1283282.0	1228951.0	426 633	345 562		
<i>y/y % change</i>	-2.9	2.9	1.4	2.3	9.8	2.1	-7.3	-19.1	-12.2		
Average size of units' completed (square metres)	115.4	112.0	117.9	107.4	119.4	127.5	117.5	128.2	138.84		

Property and Mortgage Market Summary

END OF PERIOD	2011	2012	2013	Q1-2013	Q2-2013	Q3-2013	Q4-2013	Nov-13	Dec-13	Jan-14	Feb-14
Mortgage Market											
New residential loans and re-advances granted (R'm)				42 255	49 349	51 801					
<i>y/y % change</i>				7.0	14.2	21.3					
Residential re-advances granted (R'm)				1 974	2 487	3 149					
<i>y/y % change</i>				-2.0	23.1	46.6					
Total residential mortgage loans outstanding - Banks (R'm)	816 577 655	826 765 341	837 817 307	829 260 720	832 446 791	836 143 963	837 817 307	837 682 531	837 817 307		
<i>y/y % change</i>	1.2	1.2	1.3	1.	1.3	1.4	1.3	1.3	1.3		
Key Economic Indicators											
Real Gross Domestic Product (R'm at 2000 prices)	1 909 343	1 956 444	1 993 433	1 975 072	1 990 900	1 994 454	2 013 304				
<i>y/y % change</i>	3.6	2.5	1.9	1.6	2.3	1.7	2.0				
Real Residential Fixed Investment (R'm)	22 902	23 344		22 932	22 507	22 343					
<i>y/y % change</i>	-4.4	1.9	0.0	-3.3	-3.2	-4.1					
Prime Rate (%)	9.	8.8	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	9.0
Yields on Government Bonds 10 years and Longer (%)	8.5	7.9	7.7	7.3	7.3	8.2	8.1	8.2	8.3	8.4	8.7
Currencies - USDZAR	7.27	8.22	9.66	8.957	9.491	9.994	10.156	10.2	10.38	10.89	11.
Currencies - EURZAR	10.10	10.55	12.82	11.825	12.396	13.231	13.821	13.76	14.22	14.82	15.01
<i>CPI - y/y % change</i>	5.	5.7	5.8	5.7	5.7	6.2	5.4	5.3	5.4	5.8	
<i>Gauteng pump price y/y%</i>				13.4	5.8	19.2	9.1	7.8	10.1	14.7	14.0
FNBBER Consumer Confidence Index	7.3	-0.5	-5.3	-7.0	1.0	-8.0	-7.0				
RMBBER Business Confidence Index	45	47	46	52.0	48.0	42.0	43.0				
SARB Composite Leading Business Cycle Indicator	101.2	99.9	100.9	102.3	100.8	100.2	100.3	100.24	100.23		
<i>y/y % change</i>	1.1	-1.2	1.0	0.9	1.7	1.5	-0.1	-0.10	-0.84		
<i>m/m % change</i>								-0.22	-0.01		
Real Retail Sales (2008 Prices) - R'm	625 565	654 137	672 585	156 241	161 259	162 246	192 839	59 889	78 096		
<i>y/y % change</i>	6.2	4.6	2.8	2.8	3.2	2.1	3.1	4.4	3.5		
Manufacturing - Volume of Production (Index 2005=100)	102.74	105.23	106.63	99.4	105.6	108.8	112.7	121.5	97.7		
<i>y/y % change</i>	2.7	2.4	1.3	-0.1	3.2	0.8	1.5	0.3	2.5		
Mining - Volume of Production (Index 2005=100)	99.13	95.98	99.8	89.9	98.8	104.5	106.1	105.6	107.3		
<i>y/y % change</i>	-0.9	-3.2	4.0	3.6	-1.7	1.7	13.0	5.2	12.0		
Vehicle Sales - Total (NAAMSA)	496 181	539 303	565 999	141 750	141 166	147 992	135 091	45 002	40 769	46 520	
<i>y/y % change</i>	16.4	8.7	5.0	5.6	13.6	3.5	-1.9	-5.0	2.1	-1.0	
Passenger Vehicle Sales - Total (NAAMSA)	329 829	364 767	379 673	95 008	93 409	100 647	90 609	29 310	27 747	32 685	
<i>y/y % change</i>	18.1	10.6	4.1	5.1	14.1	2.4	-3.8	-7.0	1.1	0.6	