

PROPERTY BAROMETER – HOLIDAY TOWN PRICE TRENDS

Slowing Holiday Town House Price Index inflation may be pointing to a more cautious household sector, cutting back on “non-essentials” in weak economic times.

10 February 2016

HOLIDAY TOWN HOUSE PRICE INFLATION TAPERS FURTHER IN THE 4TH QUARTER OF 2015

After some resurgence, off a low base, through 2013/2014, the FNB Holiday Towns House Price Index has more recently shown signs of a loss in price growth momentum. This index is compiled from Deeds transaction data for towns deemed to be “strongly holiday property-driven”.

In the 4th quarter of 2015, the index showed year-on-year price growth of 1.6%, slower than the revised 5.3% rate of the previous quarter. This growth rate is now slower than the 5.6% of the more primary residence-driven Major Metropolitan markets, with the price growth of those metro markets having tapered more gradually.

This slowing in the Holiday Town house price growth rate comes after some resurgence in this market through 2014, which culminated in a peak year-on-year price inflation rate of 12% in the final quarter of that year.

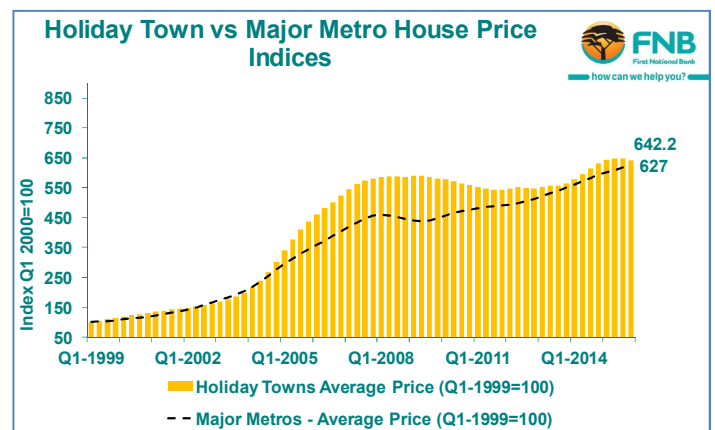
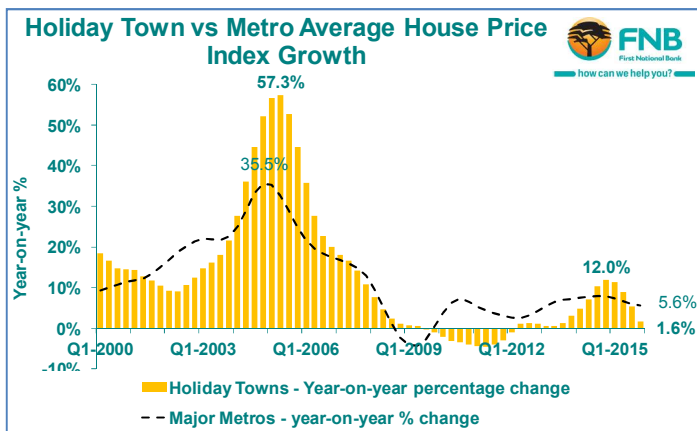
It is, however, natural for markets such as these, which rely on a high level of non-essential holiday home buying, to be more cyclical than the more primary residence-driven metro markets, thus leading to the Holiday Town House Price Index showing higher growth peaks and lower troughs than our Major Metro House Price Index.

2013, showing house price deflation over a significant part of that period.

By 2014, however, financial pressures and household sector caution, emanating from the 2008/9 recession period, had eased after some years of low interest rates, and the holiday town market began to make a noticeable “comeback”. Its prior price deflation and very low inflation over the 2010 to 2013 period had also driven a significant holiday town residential affordability improvement.

Of late, however, we are back to an increasingly constrained financial situation, with rising interest rates and slowing economic growth. This environment works more against holiday home buying levels than it does against primary residential demand.

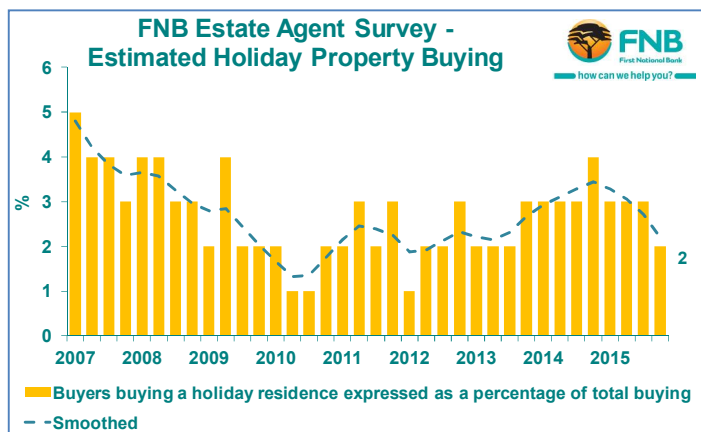
Creating a Major Metro House Price Index and a Holiday Town Index with 1999 = 100 in both, one can see how the gap between the 2 that had been built up during the boom years (when holiday town inflation was far stronger at a stage) was all but wiped out by early-2014, and remains narrow to the present day. Cumulative inflation since the beginning of 1999 for the Holiday Town Index was 542.2%, slightly more than the 527% for the Major Metro Index. However, the Major Metro Index is currently playing catch up.



Prior to 2014, holiday towns had lagged the Major Metro Residential Regions for most of the period from 2010 to

The broad movement in the FNB Estate Agent Survey’s question around the estimated percentage of home

buyers buying holiday homes also points to a slowing picture in terms of holiday home buying. The estimated percentage of home buyers believed to be holiday home buyers “elevated broadly from early-2014 to briefly touch 4%, but this estimate has since receded to 2%.



OUTLOOK

Holiday Town Transaction volume growth appears to have slowed recently, after a solid period in 2014.

In a weak economic environment, and with low levels of Consumer Confidence, we would expect the segment’s growth recovery of 2014 taper off. The slowing Holiday Town House Price Inflation rate, may be a sign of affordability becoming more of an issue, but is also likely to reflect an increasingly cautious household/consumer in a period where economic news is not overly positive.

Holiday Town markets, because of the non-essential nature of a significant portion of the home buying in such areas, are arguably more cyclical than the Major Metros, and more sensitive to economic weakness.

Therefore, we expect growth in our FNB Holiday Town House Price Index to be below that of the Major Metro Regions for the foreseeable future, in a stagnant economic environment.

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