

19 August 2019

# Property Insights



## **Review of 2<sup>nd</sup> Quarter Residential Building Statistics – That Affordability Challenge**

John Loos:  
Property Strategist

FNB Commercial Property  
Finance

Tel: 087-312 1351

Email:  
[john.loos@fnb.co.za](mailto:john.loos@fnb.co.za)

**Last week, the release of StatsSA building statistics for June completed the 2<sup>nd</sup> quarter picture for the Residential Building Sector, and a sharply weakening near term picture has become increasingly likely.**

**For some time, the FNB-BER Building Confidence Survey has been telling us not only of weakness at the front of the new development pipeline, but also of survey respondents pointing to deteriorating profitability in the Residential Building Sector for some time.**

**And indeed, a look at the Residential Building Stats of StatsSA points to a Development Sector having battled to bring competitively priced new housing stock to a market where the existing home market is well-supplied and real home values have been in decline for quite some time.**

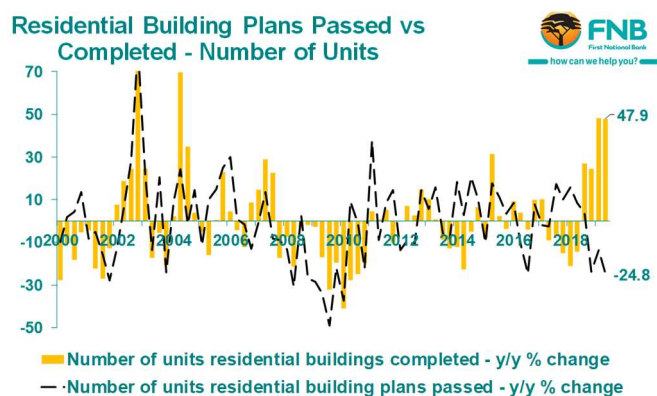
### **Key Points**

- StatsSA building statistics point to relatively solid growth in residential building completions of 47.9% year-on-year in the 2<sup>nd</sup> quarter of 2019, and suggest that the level of completions is at its highest in almost a decade.
- However, South Africa is into the longest business cycle downturn in the post-World War 2 era, the existing home market is well-supplied and price-competitive, and new residential building affordability has deteriorated relative to existing home prices as well as relative to household incomes, according to our affordability indices.
- A slowdown in the level of residential completions in the near term should be expected given the current environment. And indeed, a further sharp year-on-year decline in the number of residential units' plans passed to the tune of -24.8% in the 2<sup>nd</sup> quarter, a useful leading indicator for building activity trends, suggests that such a near term slowing is likely.
- As the development sector attempts to address the heightened affordability challenge in a tough economic environment, the emphasis has been increasingly on "flats and townhouses" as opposed to free standing homes, the data would suggest. We would also expect to see the average size of units passed and planned start to decline, something which hasn't happened in recent years according to this data.

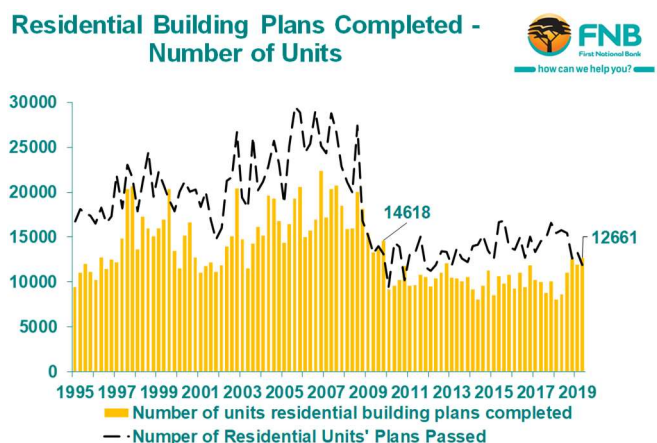
## Residential Building Completions – strongest in almost a decade but new plans decline significantly

The StatsSA Residential Building Statistics make for some interesting reading of late, with building completions growth having arguably been surprisingly strong at a time when the country is well into its longest business cycle downward phase in the post-World War 2 period, and the existing residential market is well supplied and showing real price declines.

In the 2<sup>nd</sup> quarter of 2019, year-on-year growth in residential units completed was a strong 47.9%, only marginally slower than the 1<sup>st</sup> quarter's 48.3%. These 2 quarterly growth rates in the 1<sup>st</sup> half of 2019 were the highest growth rates since mid-2004.



And reaching 12,661 in the 2<sup>nd</sup> quarter of 2019, the quarter's number of residential units completed was the highest in almost a decade too, since the 14,618 units completed in the final quarter of 2019 in the aftermath of the pre-2008 housing bubble.



However, these levels by no means represent boomtimes, remaining fairly modest compared to the 20,284 units completed in the 2<sup>nd</sup> quarter of 2007, at the peak of last decade's building boom.

It has, however, been an interesting "mini-surge" in completions levels over the past year or so, coming at a time when both the economic and property market cycles have been in a downward phase. One factor perhaps having been mildly in the Residential Building Sector's favour, though, has been the

Residential Mortgage Lending Sector's attempts to be grow their lending where there is little natural market growth, through increasing lending appetite and approval rates, as well as squeezing home loan pricing to become more competitive.

But lending appetite aside, this surge just appears to be a natural lag of the property and economic cycle due to the long time lag from when planning of projects starts until completion.

## Residential Building Plans Passed – the "forward" looking picture is less rosy

If we now turn to a more forward looking indicator, i.e. the number of units' plans passed, a leading indicator of the direction of building completions to come in future, then we see what appears to be a response emerging to the weaker economic and market conditions, i.e. a sharp decline in plans passed.

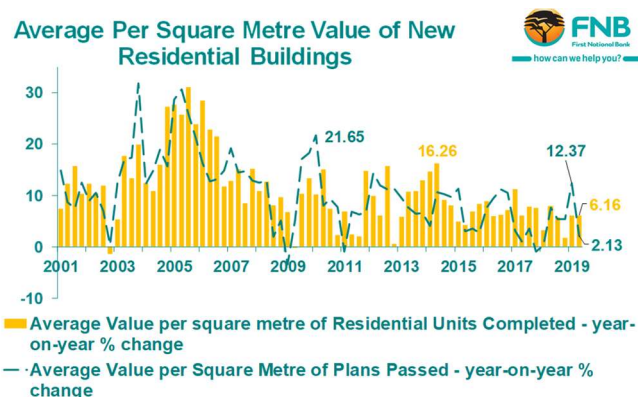
The number of units' plans passed declined year-on-year by -24.8%, after a 1<sup>st</sup> quarter decline of -13.7% and the 3<sup>rd</sup> consecutive quarter of year-on-year decline.

These quarterly declines should begin to feed through into weaker completions growth in the very near term

## The New Residential Unit Affordability Challenge

The year-on-year inflation rate in the value per square metre of plans passed and plans completed have both broadly slowed, as the slower existing home market, with real average price deflation, has made it increasingly tough for the new development sector to compete with existing prices.

However, at just over 6% year-on-year inflation per quarter for the 1<sup>st</sup> 2 quarters of 2019, average value per square metre of new completions still inflates at above the FNB House Price Index for Existing Houses, whose rate is around 3.5% year-on-year through this period.

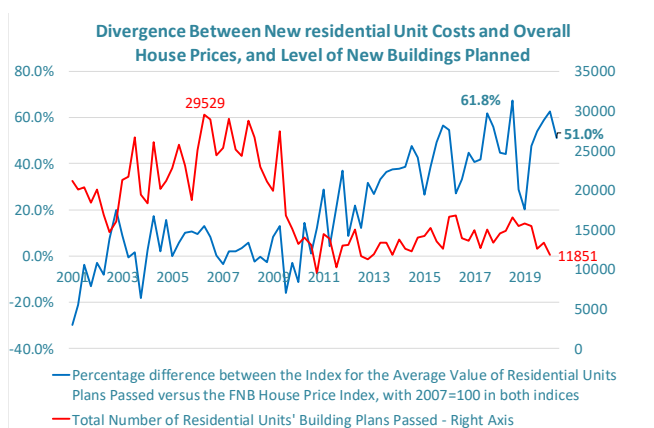


And over the past decade or more, the inflation rate in value per square metre of plans passed has far out-paced existing house price inflation.

We compile 2 indices with base year 2007 = 100,

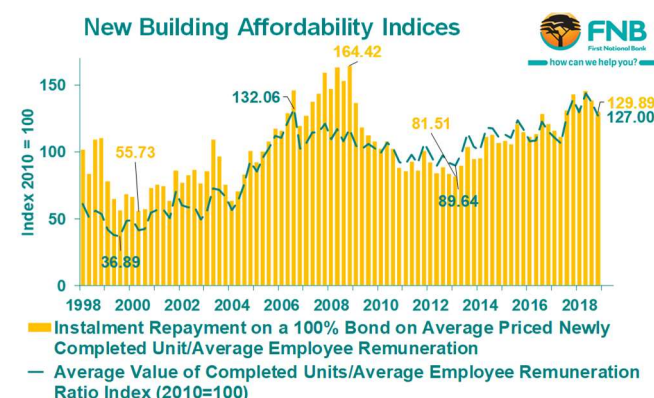
using the FNB Existing House Price Index and the Average Value Per Square Metre of Residential Building Plans Passed. We take 2007 because this was the tail end of last decade’s residential building boom. From 2007 onward, the index for average value of plans passed per square metre out-inflated the FNB Existing House Price Index to the extent that it was 51% higher than the latter index by the 2<sup>nd</sup> quarter of 2019.

This gives an idea to what extent new building values have become less competitive since 2007, and largely explains why, even despite a little surge in completions of late, building completions remain well below the 2007 and prior years’ levels.



Examining affordability on completed units relative to average employee remuneration, we have also seen a noticeable deterioration since around 2013.

We compile 2 affordability indices for new residential units completed. The first one is the Average Value of Units Completed/Average Employee Remuneration Index (In Index form because the Employee Remuneration Time Series is in Index form). This Index was 42.6% higher (i.e. affordability had deteriorated) by the end of 2018 compared to its mid-2012 level.



We then compile a 2<sup>nd</sup> index which relates more to credit-dependent purchases and the cost of credit, i.e. the Instalment Repayment Value on a 100% bond on the Average Unit Completed Value/Average employee Remuneration Index.

This index is thus not only influenced by average value of units completed and employee

remuneration trends, but also by interest rate changes and levels.

Given that interest rates today (despite a recent mild reduction) are mildly higher than back in 2012, this index has risen by slightly more than the 1<sup>st</sup> affordability index, and by the end of 2018 was 59.3% above an early-2013 multi-year low.

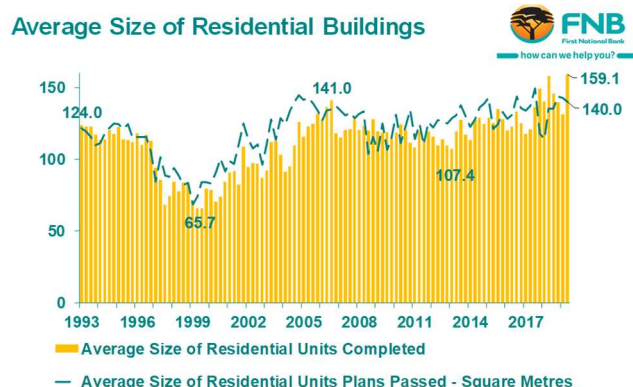
So building cost inflation relative to household incomes and existing house price growth appear to have made it tougher for the New Development Sector to bring competitively priced stock to the market.

### The Response to the Affordability Challenge – Greater Emphasis on Flats and Townhouses

One would expect to see a response to the affordability challenge, which would either include more economical land use (densification) or building of smaller units or units with less “frills”.

It would appear that an intensified drive to use land more efficiently has been the order of the day in recent years, as opposed to building smaller average-sized units. The average size of units built has come down over the long term since the 1970s, but over the past 7 years it has actually increased, perhaps surprisingly.

From a decade low of 107.4 square metres early in 2013, the average size of units completed had risen to 159.1 square metres by the 2<sup>nd</sup> quarter of 2019.



This would perhaps appear a little out of place in the recent period of economic stagnation and toughening financial conditions for households.

However, there can be 2 reasons for this. It is possible that a lower portion of the overall building activity is taking place of late in the so-called Affordable Housing Market, but that is tough to ascertain. But secondly, a more detailed look at the data shows a big drive to build far more flats and townhouses as a share of the total market in recent years.

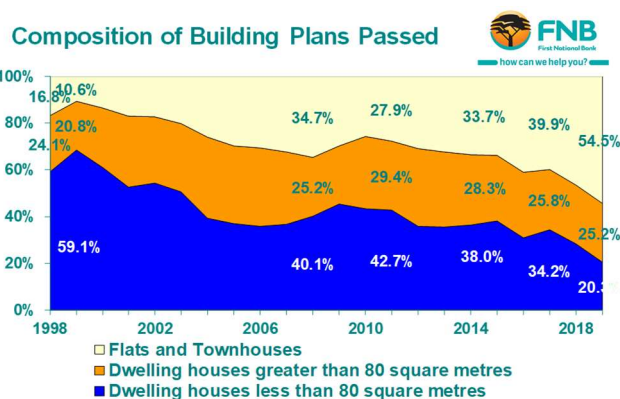
We have seen the “Flats and Townhouses” category of units completed increasing its share of total completions sharply, from 23.56% back in 2011 to a dominant 60.6% by 2019 to date

This is likely densification, much of this segment likely even being multi-story.

Losing share the most significantly is the free standing homes (“dwelling houses”) smaller than 80 square metres in size, from 48.15% of total completions back in 2011 to 19.08% as at 2019 to date.

Losing share too, albeit more moderately, was the “Dwelling Houses Larger than 80 square metres” category, the larger free-standing home category. Its share shrunk from 28.3% in 2011 to 20.3% by 2019 to date.

Therefore, the response from the Development Sector to affordability challenges appears to have been more in the form of more economic land use and densification in terms of land and less in terms of average unit size.



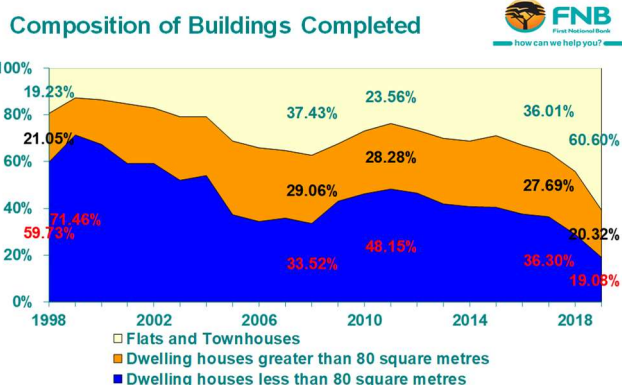
## In Conclusion

StatsSA building statistics point to relatively solid growth in residential building completions, and suggest that the level of completions is at its highest in almost a decade.

However, South Africa is into the longest business cycle downturn in the post-World War 2 era, the existing home market is well-supplied and price-competitive, and new residential building affordability has deteriorated according to our affordability indices.

Therefore, a slowdown in the level of residential completions in the near term should be expected given the current environment. And indeed, a further sharp year-on-year decline in the number of residential units’ plans passed, a useful leading indicator for building activity trends, suggests that such a near term slowing is likely.

As the development sector attempts to address the heightened affordability challenge in a tough economic environment, the emphasis has been increasingly on “flats and townhouses” as opposed to free standing homes, the data would suggest. We would also expect to see the average size of units passed and planned start to decline, something which hasn’t happened in recent years according to this data.



The trend looks set to continue if one looks at the rising share of “Flats and Townhouses” plans passed too. In 2019 to date, 54.5% of plans passed were flats and townhouses, up from 27.9% in 2011.

## Disclaimer

**First National Bank** A division of FirstRand Bank Limited. An Authorised Financial Services and Credit Provider (NCRCP20).

Disclaimer: The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by FirstRand Group Limited and / or the authors of the material

## Building Plans Passed

<b>Residential Buildings</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Q4-2018</b>	<b>Q1-2019</b>	<b>Q2-2019</b>	<b>Apr-19</b>	<b>May-19</b>	<b>Jun-19</b>
Dwelling houses less than 80 m.sq (Number)	17 318	20 286	16 673	2 570	2 202	2 919	917	1 088	914
<i>Y/Y % change</i>	-24.0	17.1	-17.8	-58.2	-58.7	-35.2	-30.4	-50.6	-7.1
Dwelling houses less than 80 m.sq (m <sup>2</sup> )	837 353	985 380	803 258	132 572	112 854	143 234	46 043	52 242	44 949
<i>Y/Y % change</i>	-23.1	17.7	-18.5	-57.2	-53.4	-34.4	-30.2	-47.5	-15.0
Dwelling houses less than 80 m.sq (R'000)	4 014 458	4 807 073	4 443 401	779 552	647 308	818 775	257 883	295 130	265 762
<i>Y/Y % change</i>	1.7	19.7	-7.6	-47.5	-46.3	-35.0	-34.5	-45.5	-18.0
Dwelling houses larger than 80 m.sq (Number)	15 899	15 312	15 049	3 818	2 915	3 417	1 131	1 166	1 120
<i>Y/Y % change</i>	-6.4	-3.7	-1.7	1.1	-15.8	-10.0	-2.1	-9.9	-16.8
Dwelling houses larger than 80 m.sq (m <sup>2</sup> )	4 344 535	4 112 272	3 987 119	985 345	786 976	947 830	313 220	327 089	307 521
<i>Y/Y % change</i>	-6.0	-5.3	-3.0	-1.2	-13.8	-3.4	4.7	-4.9	-9.0
Dwelling houses larger than 80 m.sq (R'000)	29 339 581	28 837 971	28 684 790	7 084 823	5 762 948	6 949 365	2 303 010	2 369 654	2 276 701
<i>Y/Y % change</i>	-2.0	-1.7	-0.5	-1.1	-12.4	-0.3	6.7	-1.5	-5.5
Flats and Townhouses (Number)	23 021	23 653	27 518	6 202	8 202	5 515	2 236	1 818	1 461
<i>Y/Y % change</i>	13.9	2.7	16.3	-5.9	23.4	-26.1	-3.5	-17.6	-50.3
Flats and Townhouses (m <sup>2</sup> )	2 379 301	2 838 989	3 008 337	691 196	999 555	568 469	192 080	202 660	173 729
<i>Y/Y % change</i>	16.2	19.3	6.0	8.0	63.8	-39.1	-38.1	-31.4	-47.0
Flats and Townhouses (R'000)	19 274 352	22 533 849	24 658 238	5 802 285	8 468 677	4 699 266	1 503 838	1 726 870	1 468 558
<i>Y/Y % change</i>	26.1	16.9	9.4	9.3	87.4	-37.0	-39.3	-27.0	-43.8
<b>Total units plans passed (Number)</b>	<b>56 238</b>	<b>59 251</b>	<b>59 240</b>	<b>12 590</b>	<b>13 319</b>	<b>11 851</b>	<b>4 284</b>	<b>4 072</b>	<b>3 495</b>
<i>Y/Y % change</i>	-6.2	5.4	0.0	-23.8	-13.7	-24.8	-10.6	-28.6	-33.7
<b>Total building plans passed (m<sup>2</sup>)</b>	<b>7 561 189</b>	<b>7 936 641</b>	<b>7 798 714</b>	<b>1 809 113</b>	<b>1 899 385</b>	<b>1 659 533</b>	<b>551 343</b>	<b>581 991</b>	<b>526 199</b>
<i>Y/Y % change</i>	-2.5	5.0	-1.7	-7.0	7.6	-22.2	-18.3	-21.3	-26.7
Other Residential Buildings (m <sup>2</sup> )	247 825	105 208	188 952	13 137	23 665	35 179	28 382	5 854	943
<i>Y/Y % change</i>	45.4	-57.5	79.6	-73.4	-36.7	-63.4	-42.4	-83.3	-92.0
Other Residential Buildings (R 000)	2 232 511	869 947	1 806 982	81 404	184 225	247 693	211 667	30 705	5 321
<i>Y/Y % change</i>	66.9	-61.0	107.7	-82.7	-42.5	-76.2	-64.9	-91.2	-93.8
<b>Total Residential Buildings (R 000)</b>	<b>54 860 902</b>	<b>57 048 840</b>	<b>59 593 411</b>	<b>13 748 064</b>	<b>15 063 158</b>	<b>12 715 099</b>	<b>4 276 398</b>	<b>4 422 359</b>	<b>4 016 342</b>
<i>Y/Y % change</i>	8.6	4.0	4.5	-4.7	19.3	-24.0	-24.1	-21.9	-26.1
<b>Additions and Alterations</b>									
Dwelling houses (m <sup>2</sup> )	3 031 820	2 984 582	2 861 570	719 702	621 949	730 750	226 731	264 586	239 433
<i>Y/Y % change</i>	-3.3	-1.6	-4.1	-4.5	-4.4	-2.8	3.5	8.4	-17.1
Dwelling houses (R'000)	20 092 691	21 172 380	20 895 192	5 298 042	4 731 749	5 391 015	1 688 150	1 943 962	1 758 903
<i>Y/Y % change</i>	4.9	5.4	-1.3	-3.5	1.2	-0.6	6.7	9.5	-14.9

## Buildings Completed

Residential Buildings	2016	2017	2018	Q4-2018	Q1-2019	Q2-2019	Apr-19	May-19	Jun-19
Dwelling houses less than 80 m.sq (Number)	15 562	14 164	11 662	3 617	2 247	2 443	962	622	859
<i>Y/Y % change</i>	-2.8	-9.0	-17.7	21.2	4.9	-6.4	16.3	-22.8	-12.0
Dwelling houses less than 80 m.sq (m <sup>2</sup> )	754 023	693 713	591 930	185 128	111 715	127 164	47 026	34 213	45 925
<i>Y/Y % change</i>	-4.7	-8.0	-14.7	20.9	7.8	-6.1	13.5	-21.1	-9.2
Dwelling houses less than 80 m.sq (R'000)	3 344 829	3 359 677	3 427 017	1 045 346	635 877	720 267	250 732	201 197	268 338
<i>Y/Y % change</i>	9.3	0.4	2.0	28.5	11.9	-8.8	9.1	-23.0	-10.2
Dwelling houses larger than 80 m.sq (Number)	12 234	10 802	10 715	3 229	2 604	2 390	781	885	724
<i>Y/Y % change</i>	0.6	-11.7	-0.8	-4.8	18.4	-4.8	3.9	-3.7	-13.7
Dwelling houses larger than 80 m.sq (m <sup>2</sup> )	3 066 515	2 871 035	2 693 756	783 302	630 957	665 839	231 387	241 787	192 665
<i>Y/Y % change</i>	-2.9	-6.4	-6.2	-11.2	11.0	1.8	21.3	2.2	-15.0
Dwelling houses larger than 80 m.sq (R'000)	20 495 247	20 595 050	19 828 485	5 777 084	4 792 475	4 950 484	1 726 504	1 778 457	1 445 523
<i>Y/Y % change</i>	1.7	0.5	-3.7	-9.2	14.8	5.0	21.0	7.0	-11.2
Flats and Townhouses (Number)	13 731	14 048	17 825	5 701	7 064	7 828	1 961	2 766	3 101
<i>Y/Y % change</i>	19.5	2.3	26.9	53.8	91.2	127.6	40.2	176.0	198.5
Flats and Townhouses (m <sup>2</sup> )	1 374 532	1 539 872	2 562 728	787 414	819 917	1 221 195	251 310	390 542	579 343
<i>Y/Y % change</i>	16.9	12.0	66.4	68.0	80.5	117.0	20.9	137.5	204.4
Flats and Townhouses (R'000)	10 533 470	12 573 629	20 534 729	6 364 875	6 777 636	9 983 052	2 136 545	3 270 006	4 576 501
<i>Y/Y % change</i>	24.2	19.4	63.3	62.4	90.8	127.4	27.7	157.9	215.5
<b>Total units completed (Number)</b>	<b>41 527</b>	<b>39 014</b>	<b>40 202</b>	<b>12 547</b>	<b>11 915</b>	<b>12 661</b>	<b>3 704</b>	<b>4 273</b>	<b>4 684</b>
<i>Y/Y % change</i>	<b>4.7</b>	<b>-6.1</b>	<b>3.0</b>	<b>24.4</b>	<b>48.3</b>	<b>47.9</b>	<b>24.4</b>	<b>56.7</b>	<b>64.1</b>
<b>Total building space completed (m<sup>2</sup>)</b>	<b>5 195 070</b>	<b>5 104 620</b>	<b>5 848 414</b>	<b>1 755 844</b>	<b>1 562 589</b>	<b>2 014 198</b>	<b>529 723</b>	<b>666 542</b>	<b>817 933</b>
<i>Y/Y % change</i>	<b>1.4</b>	<b>-1.7</b>	<b>14.6</b>	<b>16.7</b>	<b>38.8</b>	<b>49.0</b>	<b>20.4</b>	<b>50.0</b>	<b>75.0</b>
Other Residential Buildings (m <sup>2</sup> )	70 248	241 568	91 649	38 238	16 719	28 866	25 179	-	3 687
<i>Y/Y % change</i>	-4.0	243.9	-62.1	686.8	-40.4	225.8	206.6	#N/A	469.0
Other Residential Buildings (R 000)	605 536	2 300 250	674 838	253 183	131 173	236 801	214 277	-	22 524
<i>Y/Y % change</i>	22.9	279.9	-70.7	344.7	-38.3	380.0	377.6	#N/A	404.9
<b>Total Residential Buildings (R 000)</b>	<b>34 979 082</b>	<b>38 828 606</b>	<b>44 465 069</b>	<b>13 440 488</b>	<b>12 337 161</b>	<b>15 890 604</b>	<b>4 328 058</b>	<b>5 249 660</b>	<b>6 312 886</b>
<i>Y/Y % change</i>	<b>8.7</b>	<b>11.0</b>	<b>14.5</b>	<b>20.5</b>	<b>45.0</b>	<b>59.8</b>	<b>28.3</b>	<b>64.5</b>	<b>86.7</b>
<b>Additions and Alterations</b>									
Dwelling houses (m <sup>2</sup> )	1 225 317	1 173 145	1 102 698	260 962	238 143	242 494	79 877	92 435	70 182
<i>Y/Y % change</i>	5.6	-4.3	-6.0	0.3	-15.5	-6.1	-0.3	8.5	-24.5
Dwelling houses (R'000)	7 252 702	7 700 616	7 994 921	1 895 727	1 802 850	1 777 035	587 182	670 818	519 035
<i>Y/Y % change</i>	12.4	6.2	3.8	4.2	-9.0	-6.0	-4.8	11.4	-22.7