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PROPERTY BAROMETER

2nd Quarter 2015 Western Cape House Price Index

FNB Western Cape house price growth continues to outpace the rest, but the signs of slowing are there as affordability deteriorates

2ND QUARTER 2015 WESTERN CAPE HOUSE PRICE INDEX

FINDINGS

According to the FNB Western Cape House Price Index, the average house price for the 2nd Quarter of 2015 rose 7.7% year-on-year. This is slower than the previous quarter’s 8.2% rate, and more noticeably down from a high of 10.4% house price inflation reached early in 2014.

Real house price growth (i.e. when house prices are adjusted for Western Cape consumer price inflation), came in at a revised 2.67% year-on-year in the 2nd Quarter. This also represents a minor de-celeration from a 3.4% rate in the previous quarter.

The de-celeration in real house price inflation emanates partly from slowing nominal house price inflation, but more significantly from the impact of last year’s sharp global oil price drop subsiding, giving way to a renewed rise in Western Cape Consumer Price Index (CPI) inflation from a 1st quarter low of only 4.6%, to a 4.9% year-on-year average CPI inflation rate for the 2nd quarter based on April and May CPI numbers.

The average price of homes transacted (those financed by FNB) in the Western Cape was R1,230,487 in the 2nd Quarter, making it on average the province with the most expensive homes based on the homes being transacted, significantly higher than the 2nd most expensive province, Gauteng, with its average of R1,011,214.
WESTERN CAPE HOUSE PRICE GROWTH STILL THE STRONGEST OF THE MAJOR REGIONS

The 7.7% average house price inflation rate for the Western Cape in the 2nd quarter of 2015 meant that the province still had the strongest house price growth of the major regions of South Africa.

It was followed by the Eastern Cape’s 6.8% rate, KZN’s 5.9% and Gauteng’s 4.6%.

THE CITY OF CAPE TOWN METRO HAS BEEN THE PROVINCE’S STRONG POINT

Through 2014 and 2015 to date, the City of Cape Town Metro has seen its average estimated house price inflation rate being mildly stronger than that of the overall province. However, by the 2nd quarter, the Metro’s inflation rate of 7.8% year-on-year was only marginally higher than the overall provincial rate of 7.7%, having slowed from a 2nd quarter 2014 11.8% high.

The average estimated value of homes transacted in the City of Cape Town Metro was R1,265,766.

The City of Cape Town Metro has also out-inflated its peers, those being the country’s other major metros, in recent times. Its 2nd quarter house price inflation rate of 7.8% is significantly stronger than Tshwane’s 4.7%, Nelson Mandela Bay’s 4.6%, Joburg’s 3.5%, Ethekwini on 3.3% or Ekurhuleni’s 1.6%.

FNB’S VALUERS STILL SEE THE CITY OF CAPE TOWN METRO AS THE HOTSPOT, BUT DO POINT TO SLOWING PACE OF IMPROVEMENT

We examine the FNB Valuers Market Strength Indices for both the Cape Town Metro as well as for the province as a whole. These indices are the net result of FNB’s Valuers perceptions of demand and supply strength in their areas, with the Market Strength Index reflecting the balance between demand and supply (Explanatory notes on page 5).

Both Market Strength Indices are still on a rising trend, with the City of Cape Town index measuring 54.79 in the 2nd quarter of 2015, stronger than the overall Western Cape Index’s level of 49.12.
However, when examining the percentage change in the index levels, we see signs that the rate of growth in the City of Cape Town Metro Market Strength Index has slowed mildly in recent times, while the growth rate in the overall province’s index moves sideways but hasn’t accelerated meaningfully further.

CONCLUSION

In recent times, the Western Cape Residential market has remained by a significant margin the country’s most expensive regional market, as well as the strongest in terms of average house price growth.

It is the most expensive market due to the province possessing the 2nd highest per capita income behind Gauteng, but simultaneously having a significantly greater land scarcity that landlocked Gauteng.

That the province has often had the fastest pace of price growth in recent times, may have much to do with the province’s growing popularity as a destination of a significant group of the country’s more affluent “repeat home buyers”, and its status as the country’s 2nd fastest long term growth economy. It also typically has a relatively low rate of departure, for either emigration of “semi-gration” purposes.

However, the Western Cape House Price Index for the 2nd quarter of 2015 once again showed a slowing year-on-year growth rate, which should not be too surprising. The global economy’s growth rate has tapered mildly in recent years since around 2011, as has the South African economy’s, and the Western Cape economy cannot entirely escape these influences.

In addition, interest rates are now in a rising cycle, having started in 2014, and the Reserve Bank repeatedly warns us of more possible hiking to come.

Slower economic and household income growth, coupled with rising interest rates and strong house price growth in recent years, has translated into residential affordability deteriorations in the province through 2013 and 2014, and this appears to have started having a slowing impact on residential demand growth and thus on average house price growth.

The Western Cape Average House Price/Average Household Income Ratio has risen (deteriorated) from 4.5 in 2011 to 4.89 by 2014, while the Instalment Value on a new 100% loan on the Average Priced House/Average Household Income Ratio has risen (deteriorated) from 0.49 in 2012 to 0.54 in 2014.
ADDENDUM - NOTES:

Note on The FNB Western Cape Average House Price Index: Although also working on the average price principle (as opposed to median or repeat sales), the FNB Western Cape 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 “high end” volumes remain unchanged from one month to the next, but low priced areas’ 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 Western Cape 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.

We 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 reduce the impact of activity shifts on average price estimates.

The FNB Western Cape 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 Western Cape 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.