The Former Townships, however, remain the most affordable areas of the market on average, with an estimated house price of R331,826.

The recent outperformance by Townships, in terms of price inflation, relative to the overall Major Metro Markets, may be largely due to a relative affordability search in the market as Household Disposable Income growth comes under pressure, and following some affordability deterioration in higher priced areas of the Residential Market. The Township Market lag may also have to do with lower income people, with their more limited financial resources, taking longer to make what is a big decision, or to financially prepare for a home purchase, than their higher income counterparts in other Metro Markets.

Whatever the reasons, Township Markets do appear to have the characteristic of lagging the overall market somewhat, outperforming later on in a cyclical upswing phase, or even after the broader upswing phase.

We saw this a decade ago, too, where Major Metro overall house price inflation peaked at the end of 2004 at 35.5% year-on-year. Township house price inflation only peaked a few years later at 51.5% in the 2nd quarter of 2007, by which time the cracks were showing in the economy, interest rates were rising and the overall residential market was slowing.

Lower income groups are highly credit dependent, and often work in more cyclical sectors in larger numbers, such as manufacturing. The township market therefore also appears to be noticeably more cyclical/volatile than the suburban markets over time, with higher house price growth peaks and lower troughs, as the -16% year-on-year drop will show back in the 2nd quarter of 2009.

Have former Township markets outperformed the “suburbs” over the longer term. Price inflation-wise, cumulatively since the 1st quarter of 1999 (when
interest rates had just started their big pre-boom drop) it would appear not. 515% cumulative Major Metro house price inflation outstrips 390% for the Township Index.

However, overall growth in transaction volumes suggests a different picture. We have built transaction volume indices using Deeds data property transactions by individuals (Natural Persons), which should be residential dominated. We start both the overall Metro Markets Volume Index and the Former Township Volume Index at 100 in December 1999.

Smoothing with a 6-month moving average, we see that the Townships’ volumes were 140.5% higher in the 6-months to June 2015, compared to December 1999, while the Overall Metro Markets were only 22% up over the period.

This contrasting situation reflects a far sharper growth in transaction volumes in Township regions relative to the former “Suburbs”, the result of a steady normalization of these markets in many ways, including the reported release of a large amount of former local government owned rental stock into the traded Township markets over time.

In addition, there has been a major Affordable Housing development drive over this period, much of it around former township areas. Off a very low base, therefore, Former Township supply levels may well have improved a lot faster than in the Former Suburban areas. Greater supply improvements may explain why over this 15 year period the average house price inflation rate of Former Townships has underperformed the Overall Major Metro Markets over this long period.

In short, therefore, it depends how one looks at it. Price inflation-wise, while the Townships have recently had faster house price inflation than the “Suburbs”, our estimates are that they have experienced slower cumulative house price inflation over the past 15 years, but transactions volume-wise their growth has been stronger as these markets have “normalized” and supply of homes has risen.