PROPERTY BAROMETER – Major Metro Former "Townships" House Price Index

Major Metro former "Township" house prices still estimated to be rising faster than the so-called former "Suburban" markets, but still remain on average the most affordable housing markets.

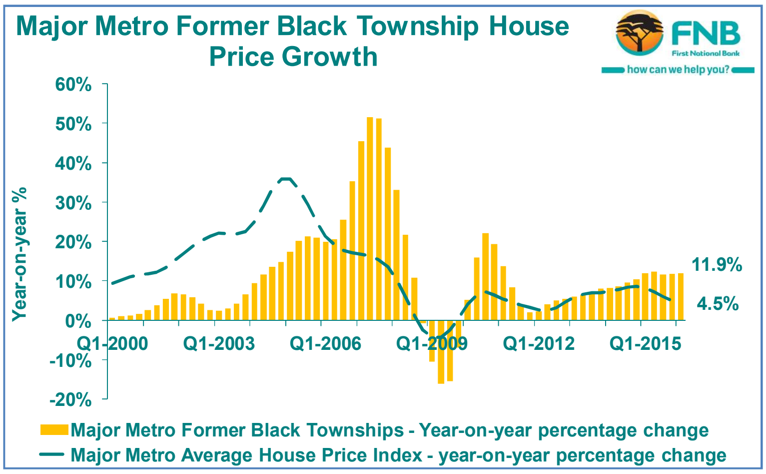
13 May 2016

The FNB Major Metro Former Township House Price Index continues to outperform the overall Major Metro House Price Index in terms of average price growth, although these "Township" areas remain the most affordable residential areas on average.

FORMER "TOWNSHIP" HOUSE PRICE GROWTH CONTINUES TO OUTPERFORM

The areas formerly classified as "Black Township Areas" under Apartheid Era classifications, saw their house price inflation rate continue to exceed that of the overall Major Metropolitan Regions in the 1st quarter of 2016.

The higher average house price growth of the Townships in recent times appears to continue to reflect greater residential supply constraints relative to demand, compared with the former "White suburban Areas" or areas with other former race classifications.



The Township markets do appear to be "late-comers" to property cycles, and also appear to be more cyclical than the higher priced markets, experiencing higher price inflation peaks and lower troughs.

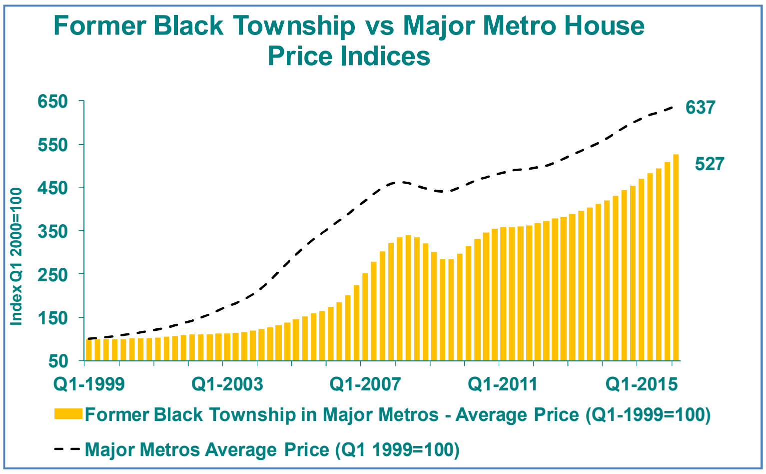
The FNB House Price Index for areas formerly classified as "Black Townships" in the 6 Major Metro regions rose by a still-strong 11.9% year-on-year in the 1st Quarter of 2016. This is very slightly higher than the revised 11.8% price growth rate of the prior quarter, and remains well-above the overall Major Metro Regions House Price Index (Ethekwini, Cape Town, Nelson Mandela Bay, Ekurhuleni, Joburg and Tshwane) growth rate of 4.5%.

The Former Townships, however, remain on average the most affordable areas of the market on average, with an average estimated house price of R356,390.

We do believe that much of this "outperformance" by the former Townships in terms of house price growth is merely a typical lag behind the higher end of the residential market. Lower income communities are sensitive to interest rate moves and economic cycles, and rising interest rates and slowing economic growth should ultimately take their toll on Township residential demand. Indeed, we have seen transaction volumes here beginning to slow recently. However, 2015 was a good year overall in terms of transaction growth in Township markets, and we believe that that volume growth, coupled with perceived supply side constraints, is still feeding into year-on-year township house price inflation with a lag.

Why the lag on the rest of the residential market? It 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. It may also have to do with lower income people, with their more limited financial resources, taking longer to make what is a big buying decision, or to financially prepare for a home purchase, than their higher income counterparts in other Metro Markets, causing Township markets to peak later than others.

Ultimately, though, 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 more pricey suburban markets over time, with higher house price growth peaks and lower troughs, as the -16.1% 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. With 537% cumulative inflation since the 1st quarter of 1999, Major Metro house price inflation outstrips the 427% cumulative inflation for the Township Index.

Why have Township markets perhaps not inflated quite as fast as the more expensive "suburban" markets? Probably due to their status as "dormitory" towns still being to a large extent intact. This means an often long commute by residents to places of work. Therefore, many of the upwardly mobile people from the Townships often migrate to the former white "suburbs", nearer to places of work and nearer to a variety of amenities.

Until Townships have become significantly more "mixed use", creating more economic activity and employment opportunities within their areas, they are probably destined to remain on average the most affordable housing regions where residents spend a high portion of income on commuter transport. This remains one of South African cities major challenges, i.e. to plan cities in such a way that we take far more of the economy to the former Townships, lowering low income transport costs.

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