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## PROPERTY BAROMETER

### FNB House Price Index

*Southern Cape house price growth has outperformed nationally, but has not quite matched the City of Cape Town and its surrounding towns.*

The FNB Southern Cape House Price Index remained near its decade high growth rates in the final quarter of 2017, but was beginning to show signs of a loss in growth momentum.

The Southern Cape housing market has had a relatively strong period in recent years, but its affordability has not deteriorated as extremely as regions closer to and within the City of Cape Town Metro.

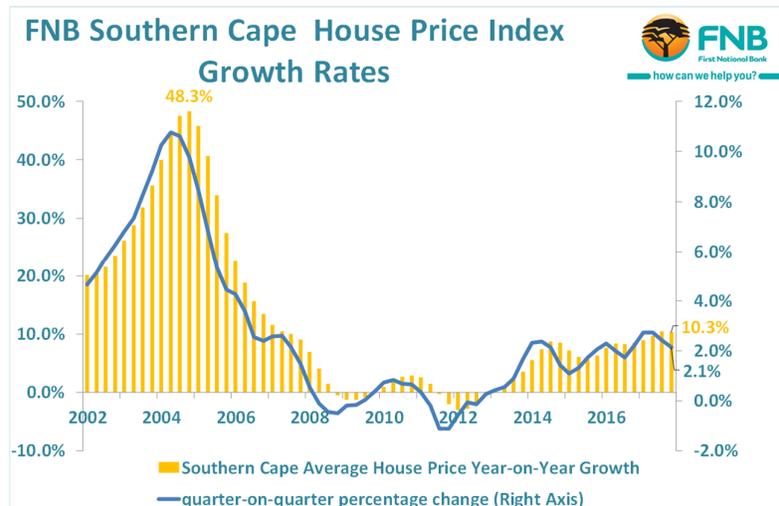
This poses the question as to whether the Southern Cape will benefit to an extent from aspirant “semi-grants” from major inland regions, who would perhaps have wanted to move more in the direction of Cape Town, but now find that region “challenging” from a housing affordability point of view?

#### FNB SOUTHERN CAPE HOUSE PRICE INDEX FINDINGS

The FNB Southern Cape House Price Index is part of FNB’s series of house price indices generated using deeds data for property transactions by individuals (“natural persons”) and applying a Repeat Sales Methodology.

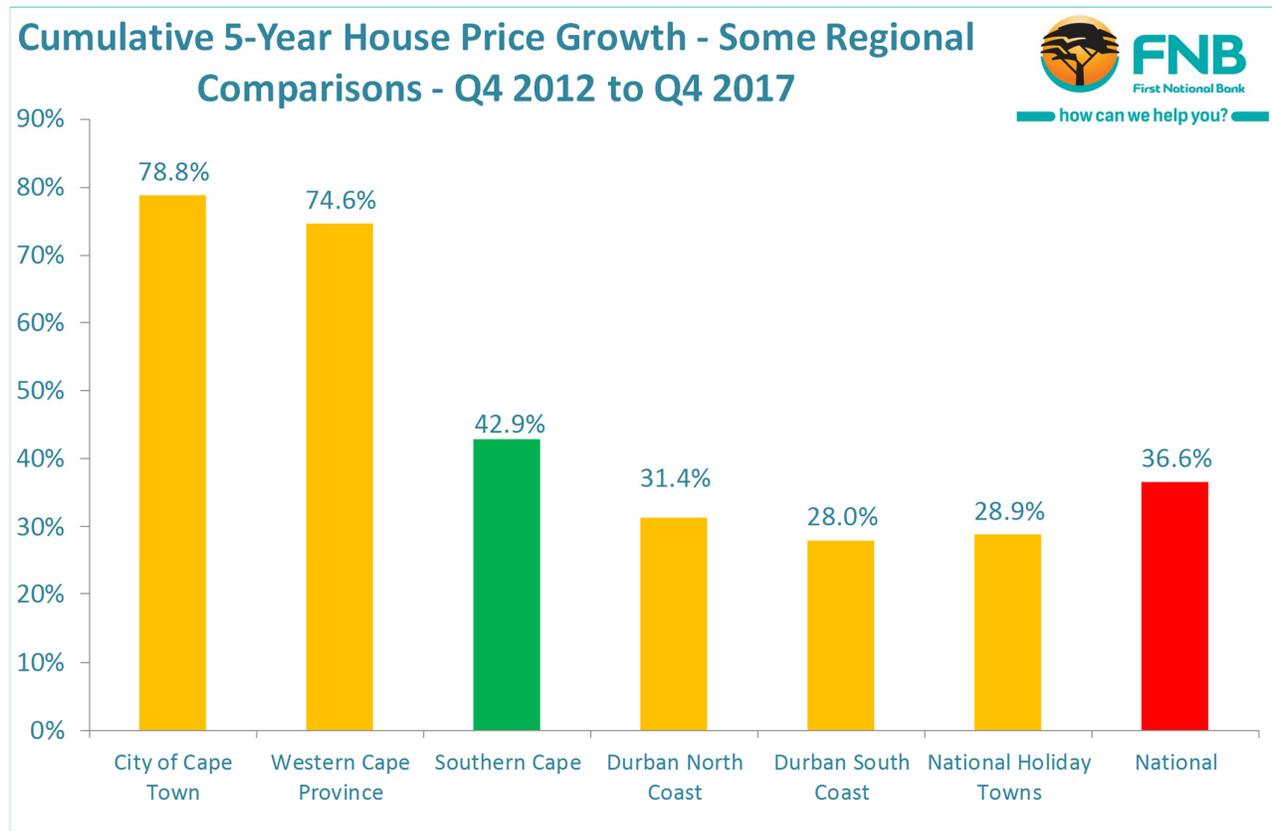
The Index showed Southern Cape (including Mossel Bay, George, Knysna, Plettenberg Bay and Oudtshoorn) house price growth to have still been at a relatively strong 10.3% in the 4<sup>th</sup> quarter of 2017. This is marginally slower than the 10.4% rate of the previous quarter, a rate which was the highest year-on-year price growth rate since early-2007, thus still-impressive.

Examining house price growth on a quarter-on-quarter basis, a better indicator of recent growth momentum, we have seen some recent loss in growth momentum, from a multi-year high of 2.7% in the 2<sup>nd</sup> quarter of 2017 to 2.1% by the final quarter of last year.



## LONGER TERM SOUTHERN CAPE HOUSE PRICE PERFORMANCE – WEAKER THAN THE WESTERN CAPE OVERALL, BUT ABOVE-AVERAGE NATIONALLY

How has the Southern Cape Region’s housing market performed over the longer term?



### Under-performance relative to Cape Town and regions closer to Cape Town

Looking back over the past 5 years, from the end of 2012, the Southern Cape House Price Index has “underperformed” the overall Western Cape House Price Index, the Southern Cape inflating by a cumulative 42.9% since the final quarter of 2012, according to this repeat sales methodology, while the entire Western Cape market has inflated cumulatively by a stronger 74.6% over the same period.

There was a time, back in the pre-2008 housing market bubble, when the Southern Cape had outperformed the Western Cape as a whole. That was the time when “over-exuberance” in the economy and in the housing market had led to major 2<sup>nd</sup> home buying, including very strong holiday home buying in holiday town regions such as those in the Western and Southern Cape. However, since 2008, it has been a more “rational” market, as well as a more financially constrained Household Sector, implying that primary residential demand has been the main focus of the Household Sector, while holiday home demand has been relatively-speaking on the backburner.

This, we believe, has been the key reason why the strongly holiday home-driven markets of the Southern Cape have underperformed regions closer to the City of Cape Town Metro. The FNB City of Cape Town House Price Index has inflated cumulatively by an impressive 78.8%, while nearby towns have also seen high price growth over the past 5 years.

### Outperformance relative to South Africa as a whole

But while the Southern Cape has “underperformed” relative to the Western Cape as a whole, in recent years, it has outperformed the national house price growth average, as well as showing better growth than holiday towns as a group nationally. The FNB National House Price Index (deeds data repeat sales version) grew by a lesser 36.6%

from the end of 2012 to the end of 2017, while our FNB National Holiday Towns House Price Index was also no match for the Southern Cape Index, growing by only 28.9%.

The reason why the Southern Cape has outperformed the national average as well as holiday towns nationally, we believe, is due to its having been part of the most sought after region for so-called “semi-grants” in South Africa. The migration of a very significant group of repeat home buyers in recent years to the Western Cape region has been well-documented. The province has had by far the strongest net inflow of repeat home buyers of any of the country’s 9 provinces, as higher income people have searched for a better perceived quality of life.

Most of these “semi-grants” have been economically productive people, making the larger City of Cape Town and surrounding economy the most attractive “targeted” sub-region of the province, given the large size of the Cape Town economy.

However, a significant portion of these semi-grants have been retirees from other provinces. The Southern Cape has benefited significantly from the arrival of these retiree “semi-grants”, as well as from a small group of economically productive “semi-grants”, although we perceive both groups to tend more towards Cape Town and its surrounding towns in greater numbers.

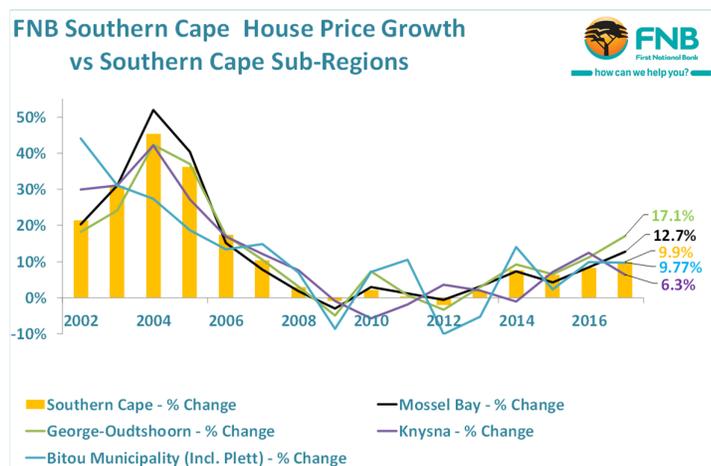
**Will the Southern Cape benefit from Cape Town’s (and its surrounding towns) greater home affordability deterioration?**

But what happens next? Cape Town and its nearby towns have seen significantly stronger house price inflation over the years than has the Southern Cape Region. This means that home affordability (House Prices relative to Household Income levels) nearer to, and within, Cape Town has deteriorated more significantly than the Southern Cape, and indeed more than most regions in South Africa.

The expected result, we believe, is that a growing portion of “aspirant semi-grants” will search for more affordable residential regions with the quality of life they desire. This could well make the Southern Cape a more desirable destination in the near future. While the region has its limits from an economic opportunity point of view, for aspirant retirees it offers a very high quality of life, along with being arguably more affordable than Cape Town these days, and in addition not possessing the growing congestion of the City of Cape Town and its surrounding towns.

On the other hand, though, the Southern Cape will not be without “competition” from other regions. In the past 5 years, the Durban North Coast has only seen house price growth of 31.4%, while the Durban South Coast has seen a lesser 28% growth, lower than the Southern Cape’s cumulative 42.9%. So a portion of the aspirant “semi-grant” population from inland regions such as Gauteng may look in greater numbers towards the KZN coast too.

**Southern Cape Sub-Region house price growth**



Finally, viewing the average house price growth of the 4 sub-regions of the Southern Cape, on an annual average basis in order to mitigate the small sample size, we saw the George-Oudtshoorn House Price Index showing the fastest inflation rate, to the tune of 17.1% in 2017, while 2<sup>nd</sup> was the Mossell Bay Region’s Index with 12.7%. Bitou Municipality, which includes Plettenberg Bay, showed a still solid 9.77%, but Knysna appeared to be in the relative “doldrums” with price growth of 6.3%, the slowest sub-region. The Knysna rate of growth had slowed significantly from 12.5%.