

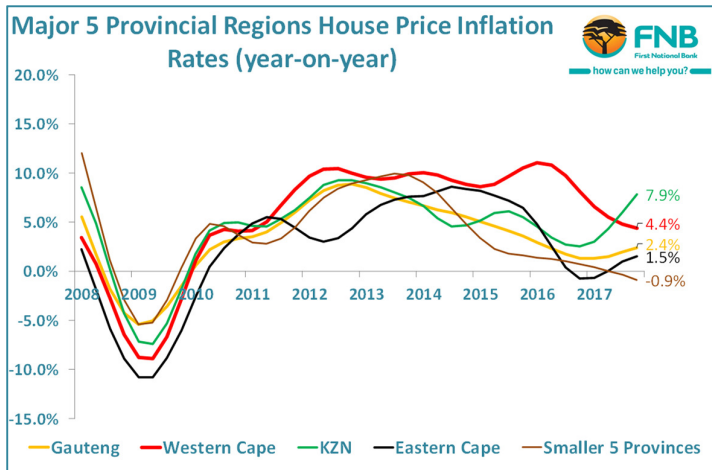
## PROPERTY BAROMETER – House Price Indices by Major Province and Major Metro

The overall Western Cape house price growth rate continued to slow in the final quarter of 2017, although its City of Cape Town Metro still “defies gravity”. In contrast, the other 3 of the “Big 4” provinces showed house price growth accelerations late in 2017.

19 January 2018

### WESTERN CAPE HOUSE PRICE GROWTH CONTINUED TO SLOW, BUT THE CITY OF CAPE TOWN METRO REMAINS STRONG.

Examining the FNB House Price Indices for the country’s major regions, gradually slowing price growth in what has been the country’s top performing region in recent years, the Western Cape, continued in the 4<sup>th</sup> quarter of 2017.

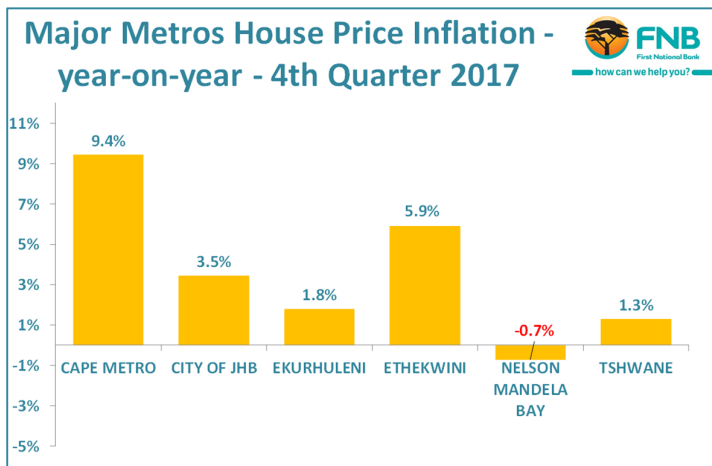


The year-on-year average house price growth for the Western Cape measured 4.4% in the 4<sup>th</sup> quarter, slower than the 4.8% revised rate of the previous quarter and now significantly slower than the 11.1% multi-year high recorded in the 1<sup>st</sup> quarter of 2016.

This means that, not for the 1<sup>st</sup> time in recent years, the Western Cape House Price Index growth rate finds itself moving in the opposite direction to the other 3 of the “Big 4” provinces.

In the 4<sup>th</sup> quarter of 2017, the other 3 major provinces” provinces showed some growth acceleration again, the Eastern Cape from a lowly 1% year-on-year in the prior quarter to 1.5%,

Gauteng from 2% to 2.4%, and KZN from 6% to 7.9%. This slowing in the Western Cape, while other major regions have been “picking up some speed”, is not too surprising. The Western Cape has significantly out-performed the rest of the country over the past 5 or 6 years, and in the process has seen its affordability deteriorate markedly. In addition, we suspect that the severe drought in that region may be starting to impact on the more Agriculture-driven parts of that province outside of the Cape Town Metro.



We believe that the slowing in Western Cape average house price growth is largely outside the City of Cape Town Metro, because the 4<sup>th</sup> quarter 2017 FNB Cape Town Metro House Price Index was still roaring along at a relatively strong 9.4% year-on-year, which is slightly faster than the previous quarter’s 9%.

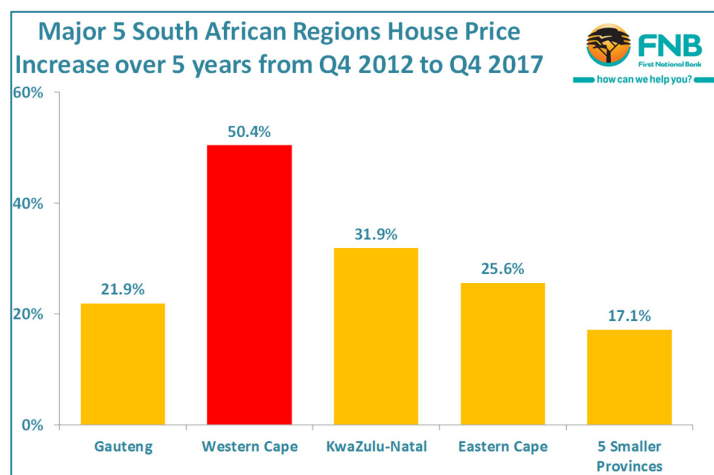
The KZN House Price Index’s recent growth outperformance is perhaps tougher to explain than the slowing in the Western Cape. The prospects for the economy had started to improve late in 2017, with certain Leading Business Cycle Indicators having risen, and interest rates did get lowered slightly last July. Link this to the fact that we had

seen very slow growth in house prices in recent past years in all of the 4 major provinces bar the Western Cape,

translating into some affordability improvements in terms of average house price relative to household incomes, and some recent house price acceleration in these 3 provinces is not too surprising.

But the recent outperformance of KZN's house price growth over Gauteng is a little surprising (although it must be remembered that all regions remain in single-digit price growth, so nothing is booming). We say this because our FNB Estate Agent Surveys for the major metros point to a greater supply-demand imbalance in the all-important Ethekewini Metro in KZN (and Ethekewini's recent house price growth acceleration has been a contributor to KZN Province's overall house price growth acceleration), with the 4<sup>th</sup> quarter estimated average time of homes on the market in that metro being a still-lengthy 20 weeks and 6 days, compared to Greater Joburg's shorter 17 weeks and 1 day, and Tshwane Metro's 13 weeks and 2 days. During 2017, Gauteng's Major Metro regions also saw strong rates of 1<sup>st</sup> time buying compared to all 3 Major Coastal Metros, suggesting that they have less of an affordability challenge than down at the coast. Therefore, despite a recent superior price growth performance in KZN, we believe that price realism and affordability in Gauteng are better than the other major regions, and that Gauteng is all round the healthiest and most well-balanced housing market. The "superior" price growth performance in KZN may thus not be sustainable for too long.

The FNB House Price Index for the 5 Smaller Provinces (Mpumalanga, Limpopo, North West, Northern Cape and Free State) showed further negative growth in the 4<sup>th</sup> quarter of 2017, from -0.4% year-on-year in the prior quarter to



-0.9%. In recent years. Mining regions' economies in the smaller provinces have been under pressure since around 2011, while more recently many of the strong Agriculture regions' economies have been under pressure from drought conditions. Their housing markets' underperformance is thus perhaps not altogether surprising in such challenging economic conditions. Cumulatively, over the past 5 years, from the 4<sup>th</sup> quarter of 2012 to the 4<sup>th</sup> quarter of 2017, the Western Cape's house price growth has far outpaced the other major regions, rising by 50.4%, with KZN being a distant second recording 31.9%, Eastern Cape 25.6%, Gauteng 21.9% and the 5 Smaller Provinces 17.1%

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