



## Market insights with Property Barometer

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# PROPERTY BAROMETER – FORMER TOWNSHIP HOUSE PRICES

## Former Black township house price growth still outperforms the rest

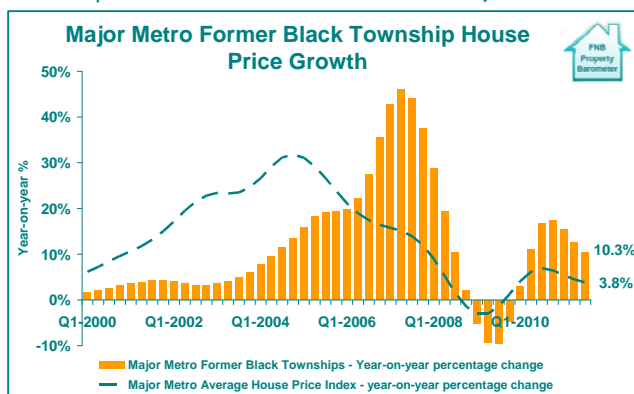
27 October 2011

We have previously mentioned that the housing markets in “Affordable Areas” of the major metros (Tshwane, Joburg, Ekurhuleni, Ethekwini, Cape Town and Nelson Mandela Bay) outperformed the rest of the value bands significantly in terms of house price growth, with a portion of the financially pressured household sector searching for affordability.

The most affordable sub-segment of the affordable part of the major metro market is the so-called “Former Black Townships”. Of the houses transacted in major metro townships, the average estimated price was R265,113. It would

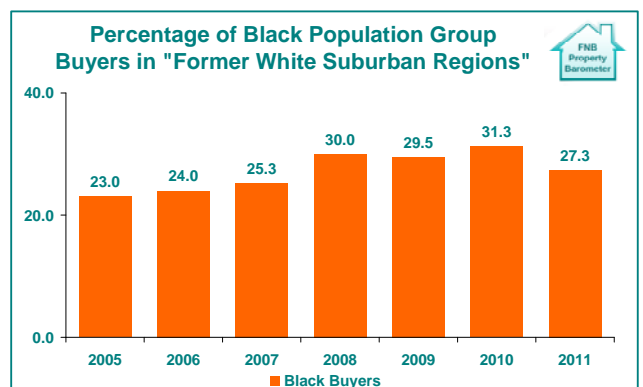
thus come as little surprise to see our Major Metro Former Black Township House Price Index outperforming the rest, growing year-on-year by +10.3% in the 3<sup>rd</sup> quarter of 2011.

This is not to say that these township markets aren't affected by the same economic cycles that other property segments are. Indeed, the 3<sup>rd</sup> quarter house price growth rate represents a slowdown from the previous quarter's revised 12.7% year-on-year growth rate. However, this remains significantly higher than the estimated +3.8% growth rate for house prices in the 6 major metro regions as a whole.



There are 4 factors that we believe to be playing a role in driving this apparent superior performance of the “Township” regions housing markets:

- Firstly, we are of the opinion that these markets didn't become as “oversupplied” during the building boom of a few years ago.
- Secondly, the transformation of the labour market continues, and this implies that off a low base the Black population group's disposable income growth has been the most rapid over a good number of years. This should imply that off a low base this group's home buying should have been growing the fastest, or in recently tougher years perhaps not slowing as rapidly as the others. Indeed, mortgage originator Ooba has pointed to a significant increase in the percentage of successful home loan applicants that are classified as Black.
- Relatively more Black home buyers doesn't necessarily mean superior Township market performance, however, because many of these buyers migrate to former white suburbs, often following their jobs to a home nearer to major business nodes. However, and this is the **3<sup>rd</sup> factor**, it is just possible that the pace of this migration to the “suburbs” has slowed a little of late, perhaps due to affordability issues in some instances. A hint of this possible slowdown is seen in the FNB Estate Agent Survey, where agents surveyed in the 1<sup>st</sup> 3 quarters of 2011 have estimated Black population group buyers at a mildly lower 27.3% of total buyers, compared to 31.3% of total suburban buyers in 2010.



- Fourthly, new “Affordable Housing” developments in the vicinity of former Black Townships do often get introduced to the market at higher prices than the existing housing stock, and a significant portion of overall transactions in these newer developments can raise the average price calculated in the overall Township Index.

### **CONCLUSION**

We continue to see the former Black Township regions within the major metro areas outperforming the higher-priced segments. However, these markets, too, appear to be experiencing slowing price growth as a result of interest rates flattening out in 2010 (following significant cutting) as well as some slowing in economic growth.

The superior performance in these township housing segments should come as little surprise, given more rapid Black Population Group income growth off a lower base than the other population groups, along with the current need for affordability in a financially pressured household sector.

In the longer term, the “townships” still need to complete their transition from dormitory towns to more mixed use regions with economies of their own. Whilst this process started a few years ago, most noticeable with infrastructure upgrades and retail centre additions, it still has a long way to run once better economic times return. This transition to “mixed use” is expected to greatly improve townships’ attractiveness as places of residence, and we thus believe that the long term prospects are for certain of these township regions to outperform the traditionally “more illustrious” suburban regions in terms of house price growth, off a far lower base, for some years.

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