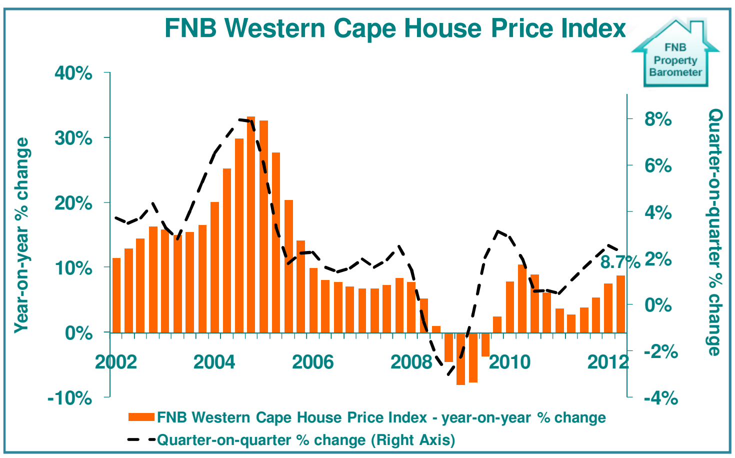
PROPERTY BAROMETER – WESTERN CAPE HOUSE PRICE INDEX

Western Cape House Price Index showed further year-on-year growth acceleration in the 2nd Quarter. The City of Cape Town Metro is believed to be the solid part of the province's market, and the more affordable segments the key drivers of price growth

24 July 2012

The 2nd quarter FNB Western Cape House Price Index showed further year-on-year house price growth acceleration in the province. FNB's valuers perceive the City of Cape Town Metro to be a stronger residential market than the country areas, and we are of the opinion that the more affordably-priced segments of the market have contributed more to price growth in the region. However, a strained global economy, and indicators pointing to a simultaneous Western Cape economic weakening, could imply near term slowing in the Province's house price growth once more.

The FNB Western Cape House Price Index for the 2nd quarter of 2012 showed a further acceleration in its year-on-year growth rate, from a rate of 7.5% in the previous quarter to 8.7%. This has been the 4th consecutive quarter of year-on-year growth acceleration, according to the latest revised figures.



On a quarter-on-quarter basis, however, the growth rate slowed slightly in the 2nd quarter, from a previous 2.5% to 2.3%, but this remains a very healthy quarter-on-quarter rate.

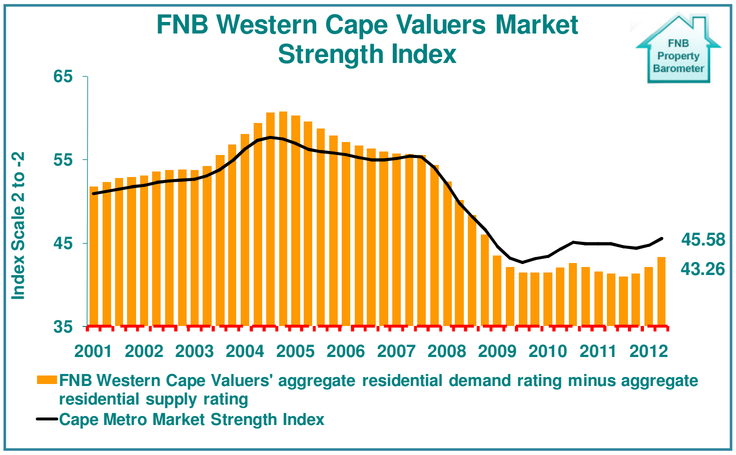
This price growth is very slightly above the national average year-on-year growth rate of 8.6% for the 2nd quarter.

The recent relatively solid period in house price growth appears to have been driven more by the Full Title segment than the Sectional Title segment. This is believed to be due to the Sectional Title segment perhaps still suffering more heavily from the overhang of a stronger supply of new stock built a few years ago during the boom. The sectional title market also appeared to be a major target of buy-to-let buyers in the boom years, and buy-to-let demand still remains mediocre by comparison to back then.

In the Full Title segment, the Affordable Housing segment is believed to have been a key driver in recent times, boosting the 2 bedroom sub-segment, while the relatively stable established family demand is the driving force behind what appears to be a pretty solid 3 bedroom Full Title market.

By area price bands in the Western Cape, it appears that, as a rule of thumb, the lower priced areas have mildly outperformed the upper end of late, which I guess is still a reflection of the financial pressures that households face, and perhaps, too, the rising costs related to operating homes, i.e. in the form of rates and tariff increases, notably electricity.

In my last week's note on the Western Cape Estate Agent Survey we discussed a lack of pricing realism amongst sellers, as well as the very significant level of selling in order to downscale due to financial pressure. This should play more into the hands of sellers on the more affordable end of the market, our reason for believing that the lower end should perform slightly better in terms of price growth



The FNB Western Cape Valuers' Market Strength Index is supportive of the recently accelerating price growth trend, having risen for 3 consecutive quarters. However, at a level of 43.26, which is still below the crucial level of 50, meaning that the supply rating of the valuers is still higher than the aggregate demand rating (see note at end), we should probably anticipate further real house price decline in the short to medium term. By "real price decline" I refer to where house price growth can for lengthy periods be below general price inflation in the economy, usually measured by consumer price inflation. So the market is not yet in a strong position in terms of demand relative to supply, despite the recent relatively good patch.

What the FNB Valuers also suggest to us is that the market balance in the City of Cape Town Metro is healthier than that of the non-metro areas of the province. This is implied in the fact that the Cape Metro Market Strength Index, at 45.58, is higher than the Index for the entire province. This should not be too surprising, as the country areas have been supported by significant getaway property demand, and this non-essential form of property buying has been less of a priority since the financial knock delivered by the 2008/9 recession. The rural Western Cape market does, nevertheless, appear to have been showing some improvement too, but appears to lag the metro market which is driven more strongly by primary residential demand.

***Outlook:** After a recent good period, we may begin to see some slowing price growth in the region once more. Global economic troubles have been widely reported, and our region is a part of that global economy. So it is not surprising that the Sake24/BoE Provincial Barometers (relating to economic performance), compiled by Economists.co.ca, point to slowing economic growth performance in the major provinces of SA, including the Western Cape.*

The Sake24/BoE Western Cape Growth Index has been showing slowing year-on-year growth since around December 2011. I've already mentioned that, while still solid, quarter-on-quarter house price growth in the Western Cape was slightly lower in the 2nd quarter. Should economic growth slow, this should be expected to lead house price growth in a similar direction, with the recent lone interest rate cut perhaps proving a partial counter to economic weakness.

An extract from the most recent release of the Sake24/BoE Barometer, earlier in July, reads as follows…. "Together with the chilly Cape weather the Western Cape economy is also cooling down, as is evident from the May Sake24 and BoE Private Clients Western Cape Barometer. But although the barometer's main index contracted 1.6% year-on-year (y/y) in May and average consumers and small business enterprises in the province were becoming more cautious, figures like vehicle sales still show some punch in the provincial economy here and there. Motor sales, for instance, were 11.2% better than in May last year and visits to hotels and restaurants 3.8% up."

So in short, it seems our province's economy is not too badly off, but slowing seems to be the order of the day, and housing market normally tracks economic trends.

***Note on the FNB Valuers' Market Strength Index:** When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple "good (100)", "average (50)", and "weak (0)". From all of these ratings we compile an aggregate demand and an aggregate supply rating, which are expressed on a scale of 0 to 100. After aggregating the individual demand and supply ratings, we subtract the aggregate supply rating from the demand rating, add 100 to the difference, and divide by 2, so that the FNB Valuers' Residential Market Strength Index is also depicted on a scale of 0 to 100 with 50 being the point where supply and demand are equal.*

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