

PROPERTY BAROMETER – TOWNSHIP MARKETS

Former Black Township price growth performance marginally ahead of the Suburbs of late, but they still lag in the longer term it seems

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FORMER BLACK TOWNSHIP HOUSE PRICE GROWTH SLIGHTLY AHEAD OF “SUBURBS” OF LATE

The areas formerly classified as “Black Township Areas” under Apartheid Era classifications have outperformed the former White “Suburbs” in terms of house price growth for much of the period since 2006, playing some catch up off a very low price base. And we estimate that they have continued to marginally outperform as of late too.

In the 3rd quarter of 2013, the FNB Former Black Township House Price Index for Major Metro regions rose by 6.9% year-on-year. This is slightly higher than the 5.2% revised growth for the previous quarter, and mildly higher than the 5.8% recorded for the entire market in the 6 major metros (Ethekwini, Cape Town, Nelson Mandela Bay, Ekurhuleni, Joburg and Tshwane).

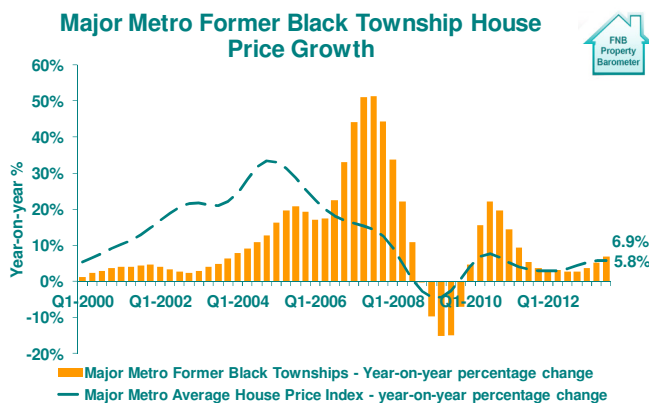
We perceive such statements to be based on the high number of households that still reside in informal settlements, reflecting a strong need for a few million to be housed, the ultimate solution being greater job creation as well as a way of developing more affordable homes.

However, in “economist speak” that does not reflect true demand. Rather, we consider demand to reflect those households who have the means to buy homes (or at least access to those means) at the prevailing price levels, and in addition wish to do so.

Following an economist idea of demand, the Former Black Township residential market (and thus much of the affordable housing market) does not currently appear to have very strong demand relative to supply, as it did for instance back around 2007. Rather, the market appears to be relatively well-balanced, which is reflected in an average house price growth rate that at 6.9% is not very far out of line with consumer inflation, translating into only mild growth in real terms. One would think that extreme demand relative to very limited supply would almost certainly be driving real prices higher at a far faster rate.

Yes, Former Black Township markets behave in many ways similarly to the higher priced former White Suburban markets, except that they appear a little more sensitive to interest rate and economic cycles. So, in times of strengthening, their house price growth has tended to be higher than that of the overall Major Metro House Price Index, while in times of economic weakening and interest rate hiking, such as around 2008/9, their price dips can be a little more severe. That is what one would expect to see, perhaps, from lower income households who are arguably more dependent on credit for home buying than higher income households, and have less financial buffers to weather periodic economic storms.

The past decade’s Township house price trends probably also tell us that, while township house price growth cycles may not differ dramatically in direction from the Suburban markets, we should probably not



TOWNSHIP PRICE TRENDS APPEAR NORMAL, BUT A LITTLE MORE CYCLICAL THAN THE “SUBURBS”

Periodically, one hears statements that the so-called “Affordable” Housing Market, which includes the bulk of former Black Township markets, has massive supply shortages and almost “unlimited demand”.

expect all Townships to become future “competition” for the Suburban markets.

For many decades to come there will be a major challenge in terms of providing affordable housing for many more households, and it is in or bordering on many of these townships where much of the new affordable housing stock is being created.

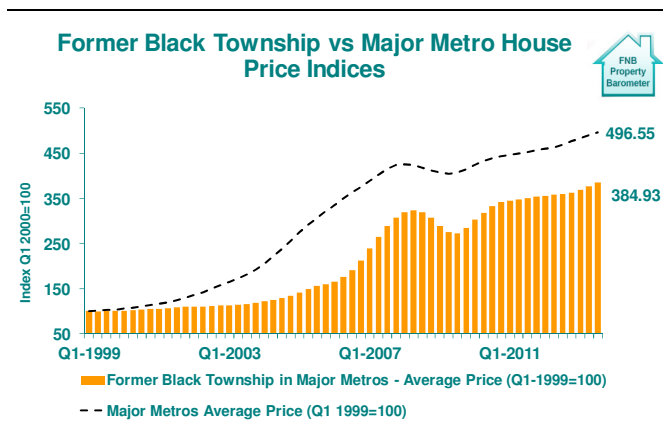
Better new supply growth in the affordable segment relative to Suburban markets could rather see Suburban-Township price differentials remaining, which would not necessarily be a bad thing. As a matter of fact, our house price indices suggest that exactly this has been happening.

Setting the base at the 1st quarter of 1999 for both the Township and overall Major Metro (dominated by former White Suburban markets) price indices (admittedly, a starting point for comparisons is always debatable, and I take this one merely because it is where the boom more or less started), one sees that on a cumulative basis, from 1999 to the 3rd quarter of 2013, Township house price growth has perhaps underperformed the Suburban markets.

This relatively more moderate price growth performance since the late-1990s in the Townships (compared to Suburban markets) is partly reflective of improved growth in supply of new stock over the years.

Therefore, while there have been periods in the past decade-and-a-half's property cycle where Former Black Township house price growth has exceeded that of the higher income former White Suburban markets, a look at longer term cumulative performance appears to reveal a market that has not narrowed the price gap between itself and the Suburbs since the late-1990s. Demand in affordable areas is growing steadily over time, but then so is supply, led by various affordable housing drives.

*Note: The House Price Indices quoted in this report have been estimated using Deeds data transactions by individuals.



Whereas the Major Metro House Price Index rose cumulatively by 396.6% from early-1999 to the 3rd quarter of 2013, the Township Index rose by a lesser 284.9% in total.

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