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PROPERTY BAROMETER – 2011 MAJOR PROVINCES’ HOUSE PRICE PERFORMANCE

While none set the world alight, it appears that the country’s smaller provinces fared slightly better in terms of house price growth than the 2 major ones

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KZN AND EASTERN CAPE SHOW BETTER-THAN-AVERAGE HOUSE PRICE GROWTH

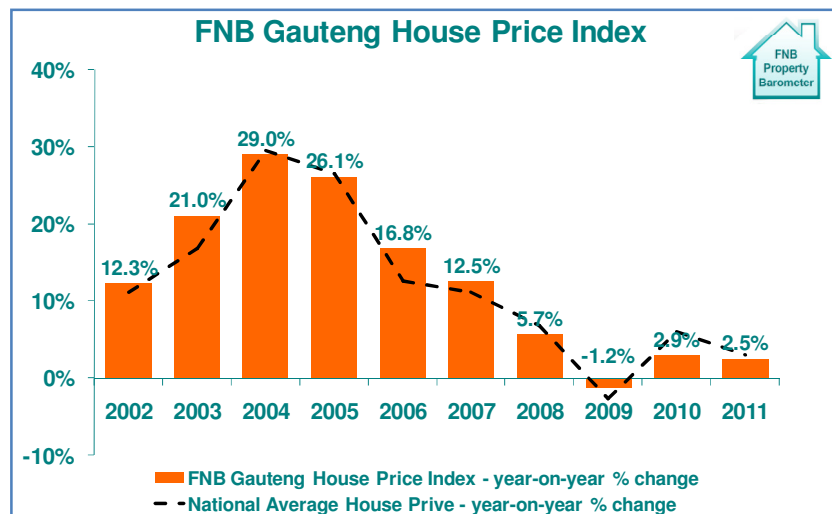
Examining the house price performance of the major provincial housing markets, Gauteng appears to have been the most stable in recent years, not showing as much price deflation during 2009, as the national house price decline, but not showing the same extent of “mini-recovery” in price growth in 2010/11 that the national market as a whole has shown.

So, in 2011, the average Gauteng house price increase was measured at 2.5% (compared to 3.1% growth on a national basis), slightly lower than the 2.9% recorded in 2010 (compared to 6% on a national basis).

We believe that Gauteng’s seemingly less cyclical market (in terms of price growth fluctuations) is due to its economy being arguably one of the most developed as well as one of the best diversified, not being as exposed to the highly cyclical manufacturing and related sectors as KZN and the Eastern Cape for instance.

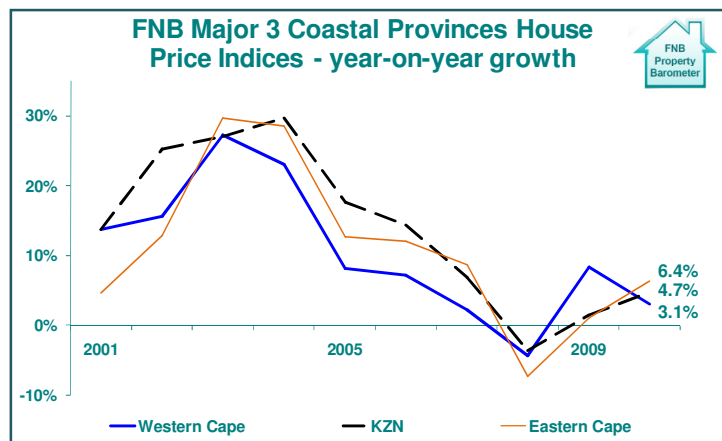
In addition, Gauteng has a very small holiday market relative to the size of its primary residential market, and primary residential demand is far less cyclical than holiday residential demand due to more essential nature.

On top of this, Gauteng is SA’s main “head office” region, and during tough economic times such as those of recent years one often finds corporates centralizing more functions to head office and cutting back on their operations in smaller economic regions. This may have partly cushioned the employment blow of the recession in Gauteng.



So, in short, we would expect Gauteng to “underperform” other more cyclical regions in boom times, but outperform them in a slump.

By comparison, we appear to see a little more fluctuation in the major coastal provinces’ housing markets. The Western Cape appeared to have had a bit more of a mini price recovery than Gauteng in 2010, recording 8.4% growth in that year, but has slowed somewhat to 3.1% in 2011, still slightly higher than Gauteng and right on the national average.

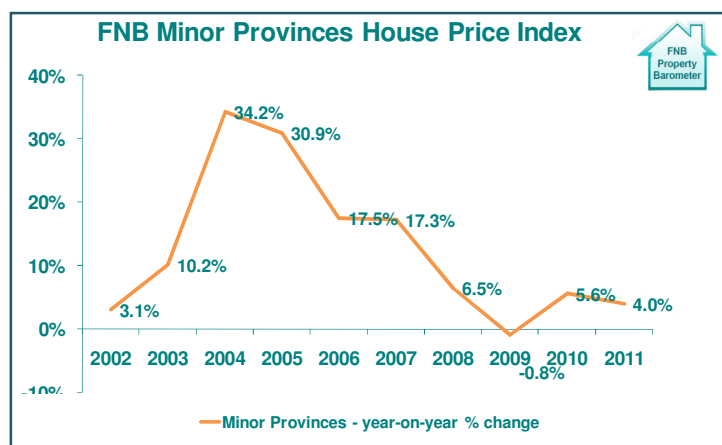


The other 2 major coastal provinces, namely KZN and Eastern Cape, however, appear to have taken a little longer to gather steam following the recession of 2008/9. Both provinces’ average house price growth exceeded the national average in 2011, on top of showing an acceleration on 2010 growth rates. KZN saw average house price growth of 4.7% in 2011 (up from 1.5% in 2010), while the Eastern Cape showed estimated price growth of 6.4% in 2011,

up from 1.1% in 2010.

These two provinces therefore appear to be “laggards” in the residential property cycle. Possible explanations may be a high portion of holiday property, which has been underperforming primary residential demand in tough financial times. But more likely, perhaps, is that the economies of these two regions, due to their heavy dependence on the highly-cyclical manufacturing sector, took more of a knock in the 2008/9 recession than did Gauteng and the Western Cape, and this may have caused something of a lag in the improvement thereafter.

MINOR PROVINCES AS A GROUP



Finally, the FNB Minor Provinces House Price Index showed average estimated growth of 4% year-on-year in 2011, mildly down from 5.6% in 2010.

These more rural and predominantly inland regions also show some resemblance to the more stable Gauteng market, with the index seemingly pointing to less volatility in recent years than the coastal country regions. Arguably less holiday-driven than many areas of the coast (though they do nevertheless have significant holiday markets), and heavily exposed to the “non-cyclical” agriculture sector (which hasn’t fared badly in recent years), this should perhaps not be too surprising either.

IN CONCLUSION

Nationally, 2011 saw average house price growth slowing, which was due to slowing growth in the two major markets, i.e. Gauteng and the Western Cape, along with the 5 minor provinces as a group. The two provinces bucking the trend were KZN and the Eastern Cape, who saw further acceleration from 2010 off low price bases. It is possible that these two provinces’ significant-sized holiday markets, and their dependence on manufacturing, caused a bit more pain in the recession times compared to the other provinces, and this may be the explanation for their more lagged price growth recovery. These 2, however, are expected to “join the trend” of slowing price growth in 2012, as the country sees expected economic growth slow further due to global economic pressures.

*The 5 minor provinces are Limpopo, Mpumalanga, North West, Free State and the Northern Cape

**The FNB Regional House Price Indices are fixed-weighted averages of their sub-indices, which are split by room number and by sectional title versus freehold properties. The indices are lightly smoothed using a Hodrick-Prescott smoothing function. An index quarter commences 7 days prior to the end of the previous quarter and runs to 7 days prior to the said calendar quarter.

FNB PROVINCIAL HOUSE PRICE INDEX TABLE

	Gauteng - Average Price (Rand)	Year-on-year % change	Western Cape - Average Price (Rand)	Year-on-year % change	KwaZulu-Natal - Average Price (Rand)	Year-on-year % change	Eastern Cape - Average Price (Rand)	Year-on-year % change	Minor Provinces - Average Price (Rand)	Year-on-year % change
Q1-2001	251,042		334,039		218,110		248,238		175,702	
Q1-2001	254,954		341,420		221,823		254,882		175,779	
Q1-2001	259,271		349,291		226,035		259,479		177,397	
Q1-2001	264,747		358,880		231,433		263,006		179,859	
Q1-2002	272,525	8.6%	372,296	11.5%	238,082	9.2%	266,048	7.2%	182,043	3.6%
Q2-2002	282,598	10.8%	385,370	12.9%	246,862	11.3%	265,722	4.3%	182,287	3.7%
Q3-2002	294,181	13.5%	399,702	14.4%	260,042	15.0%	267,633	3.1%	182,360	2.8%
Q4-2002	307,207	16.0%	417,060	16.2%	275,686	19.1%	273,832	4.1%	183,756	2.2%
Q1-2003	321,950	18.1%	430,924	15.7%	292,694	22.9%	282,927	6.3%	187,013	2.7%
Q2-2003	339,464	20.1%	443,153	15.0%	310,408	25.7%	293,741	10.5%	193,324	6.1%
Q3-2003	358,340	21.8%	461,178	15.4%	328,108	26.2%	307,865	15.0%	204,358	12.1%
Q4-2003	379,983	23.7%	485,510	16.4%	348,017	26.2%	327,550	19.6%	220,159	19.8%
Q1-2004	405,138	25.8%	517,272	20.0%	368,753	26.0%	352,147	24.5%	238,145	27.3%
Q2-2004	434,259	27.9%	554,733	25.2%	390,813	25.9%	377,379	28.5%	257,739	33.3%
Q3-2004	466,336	30.1%	598,870	29.9%	416,696	27.0%	405,732	31.8%	279,881	37.0%
Q4-2004	500,131	31.6%	646,161	33.1%	449,075	29.0%	437,094	33.4%	304,720	38.4%
Q1-2005	531,729	31.2%	685,424	32.5%	484,328	31.3%	469,964	33.5%	328,031	37.7%
Q2-2005	559,222	28.8%	708,100	27.6%	515,600	31.9%	497,834	31.9%	346,987	34.6%
Q3-2005	581,745	24.7%	720,700	20.3%	541,962	30.1%	518,494	27.8%	362,307	29.5%
Q4-2005	604,373	20.8%	736,746	14.0%	566,032	26.0%	534,489	22.3%	376,551	23.6%
Q1-2006	628,852	18.3%	753,365	9.9%	589,723	21.8%	549,136	16.8%	391,274	19.3%
Q2-2006	653,996	16.9%	765,386	8.1%	609,921	18.3%	561,489	12.8%	406,935	17.3%
Q3-2006	677,171	16.4%	776,191	7.7%	628,908	16.0%	575,449	11.0%	422,789	16.7%
Q4-2006	699,190	15.7%	788,394	7.0%	651,148	15.0%	590,644	10.5%	440,784	17.1%
Q1-2007	720,154	14.5%	803,874	6.7%	677,819	14.9%	603,756	9.9%	460,270	17.6%
Q2-2007	738,745	13.0%	816,831	6.7%	700,765	14.9%	622,851	10.9%	479,886	17.9%
Q3-2007	757,413	11.8%	832,550	7.3%	720,552	14.6%	649,225	12.8%	497,827	17.7%
Q4-2007	775,704	10.9%	853,365	8.2%	736,998	13.2%	676,937	14.6%	511,392	16.0%
Q1-2008	788,726	9.5%	866,026	7.7%	751,856	10.9%	693,362	14.8%	519,147	12.8%
Q2-2008	793,280	7.4%	859,601	5.2%	762,191	8.8%	698,081	12.1%	521,356	8.6%
Q3-2008	791,484	4.5%	840,143	0.9%	764,639	6.1%	694,675	7.0%	519,734	4.4%
Q4-2008	788,343	1.6%	814,919	-4.5%	753,800	2.3%	688,846	1.8%	515,768	0.9%
Q1-2009	781,883	-0.9%	796,604	-8.0%	738,680	-1.8%	667,759	-3.7%	509,074	-1.9%
Q2-2009	776,756	-2.1%	793,241	-7.7%	729,373	-4.3%	642,360	-8.0%	507,759	-2.6%
Q3-2009	778,492	-1.6%	809,397	-3.7%	727,173	-4.9%	631,889	-9.0%	515,694	-0.8%
Q4-2009	787,349	-0.1%	835,003	2.5%	729,375	-3.2%	632,538	-8.2%	526,456	2.1%
Q1-2010	797,644	2.0%	859,337	7.9%	733,283	-0.7%	639,466	-4.2%	535,498	5.2%
Q2-2010	804,600	3.6%	876,509	10.5%	738,594	1.3%	645,563	0.5%	542,618	6.9%
Q3-2010	805,813	3.5%	882,178	9.0%	743,860	2.3%	653,145	3.4%	546,714	6.0%
Q4-2010	808,204	2.6%	888,153	6.4%	752,157	3.1%	665,111	5.1%	550,302	4.5%
Q1-2011	812,994	1.9%	892,298	3.8%	759,818	3.6%	677,701	6.0%	554,147	3.5%
Q2-2011	821,320	2.1%	899,614	2.6%	770,429	4.3%	687,814	6.5%	561,115	3.4%
Q3-2011	828,521	2.8%	907,718	2.9%	784,083	5.4%	695,946	6.6%	569,430	4.2%
Q4-2011	833,614	3.1%	915,320	3.1%	794,359	5.6%	707,349	6.4%	578,148	5.1%
ANNUAL AVERAGE										
2001	257,503		345,908		224,350		256,401		177,184	
2002	289,128	12.3%	393,607	13.8%	255,168	13.7%	268,309	4.6%	182,612	3.1%
2003	349,934	21.0%	455,191	15.6%	319,807	25.3%	303,021	12.9%	201,214	10.2%
2004	451,466	29.0%	579,259	27.3%	406,334	27.1%	393,088	29.7%	270,121	34.2%
2005	569,267	26.1%	712,743	23.0%	526,981	29.7%	505,195	28.5%	353,469	30.9%
2006	664,802	16.8%	770,834	8.2%	619,925	17.6%	569,180	12.7%	415,446	17.5%
2007	748,004	12.5%	826,655	7.2%	709,033	14.4%	638,192	12.1%	487,344	17.3%
2008	790,458	5.7%	845,172	2.2%	758,122	6.9%	693,741	8.7%	519,001	6.5%
2009	781,120	-1.2%	808,561	-4.3%	731,150	-3.6%	643,636	-7.2%	514,746	-0.8%
2010	804,065	2.9%	876,544	8.4%	741,974	1.5%	650,821	1.1%	543,783	5.6%
2011	824,112	2.5%	903,738	3.1%	777,172	4.7%	692,203	6.4%	565,710	4.0%