PROPERTY BAROMETER

FNB City of Cape Town House Price Indices

The most expensive markets, i.e. those against Table Mountain, appear to have been cooling off noticeably in terms of house price growth, but in more affordable sub-regions of the City that's not quite the case yet

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MARKET ANALYTICS AND SCENARIO FORECASTING UNIT

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Our 4th quarter 2017 City of Cape Town Sub-Regional House Price Indices continue to show some of the most expensive regions' house price growth to be slowing noticeably. But with very expensive home values in recent years in Cape Town encouraging a greater search for affordability, some of the City's more affordable housing regions appear to have been performing quite well.

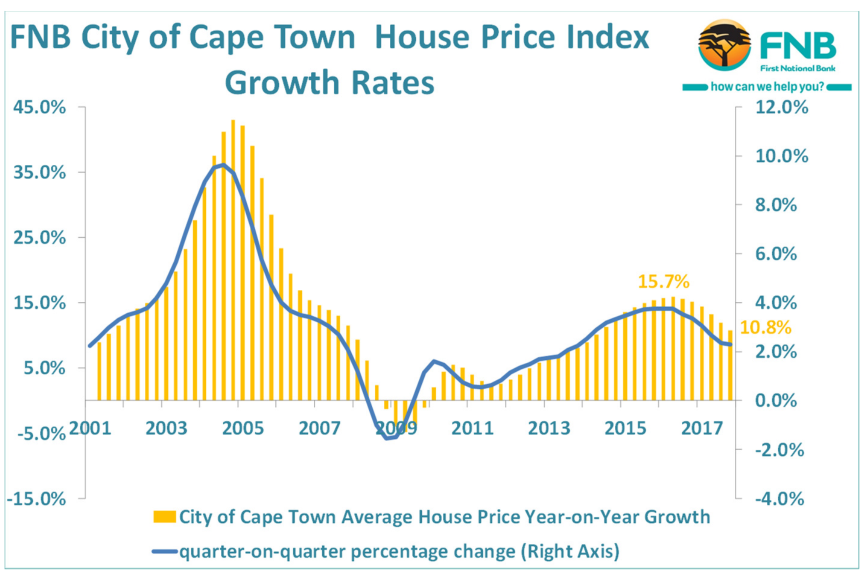
Overall, though, our deeds data-driven City of Cape Town House Price Index continued to show a gradually slowing price growth rate, albeit still strong.

THE OVERALL CITY PICTURE

Using Deeds Office Data, we compile a set of house price indices for key sub-regions within the City of Cape Town Metro using a repeat sales methodology.

We have then rolled up this set of sub-regions into an overall City of Cape Town Metro House Price Index. In the 4th quarter of 2017, the City of Cape Town's estimated average house price growth rate remained just within double-digit territory to the tune of 10.8% year-on-year.

However, while still very strong, this year-on-year price growth rate represents the 6th consecutive quarter of slowing from a 10-year high of 15.7% recorded in the 2nd quarter of 2016.



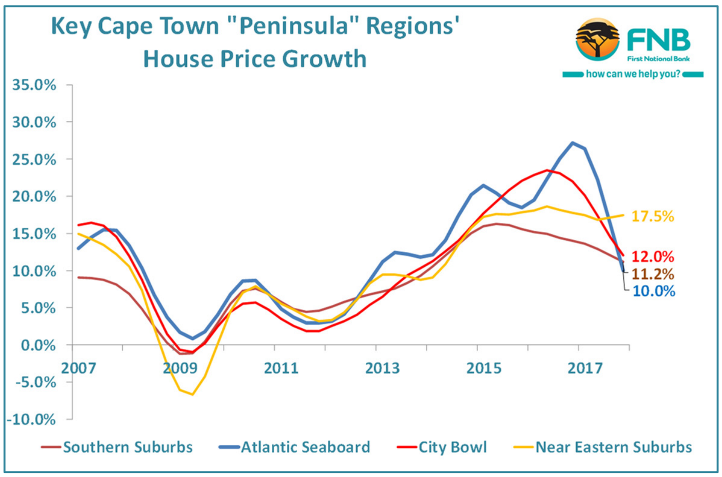
THE HIGHEST PRICED SUB-REGIONS CONTINUE TO LEAD THE WAY SLOWER

4TH QUARTER 2017 KEY CAPE TOWN SUB-REGIONAL HOUSE PRICE GROWTH RATES

The FNB City of Cape Town Sub-Regional House Price Indices still show widespread strength across much of the metro. However, 6 of our 12 defined sub-regions saw their year-on-year growth having slowed in the 4th quarter of 2017, and 3 of these were the 3 most expensive sub-regions.

However, in the more affordable regions there still appears to be some "resilience", with quite a few of these sub-regions showing recent price growth accelerations. This is not too surprising to see, given that the huge price growth of recent years in higher end sub-regions must surely have encouraged a more recent shift in some demand towards those more affordable sub-regions. But the fact that many sub-regions still see double-digit house price growth points to still very strong purchasing power in the City of Cape Town.

IN AND AROUND THE CAPE PENINSULA THE CITY'S 3 MOST EXPENSIVE MARKETS CONTINUED THEIR SLOWING PRICE GROWTH IN THE 4TH QUARTER



In 4th quarter of 2017, we saw more noticeable signs of house price growth slowing down in the City Bowl and 2 of the 3 sub-regions closest to the City Bowl.

These sub-regions near to the city and the mountain have inflated very strongly in recent years, and we suspect that resultant mounting home affordability challenges here are contributing to a "natural" price growth slow down.

While many people ask us questions as to whether the severe Western Cape drought has had a noticeable impact on house prices, we don't believe so yet. Rather, our opinion is that the mounting affordability challenge (from massive house price growth) of recent years has begun to "naturally" lead to slowing house price growth in these high end markets.

The most expensive sub-region, in the City of Cape Town Metro, i.e. the Atlantic Seaboard, has seen its average house price growth slow from a multi-year high of 27.2% year-on-year in the final quarter of 2016 to 10% by the 3rd quarter. It is possible that a slowing in the rate of foreigner buying of SA property last year, due we believe to a widespread negative sentiment towards South Africa at the time, could have had some negative impact on price growth in this sub-region which is typically big on foreign owners and buyers. But again, we believe that 122.8% cumulative house price growth of the past 5 years has been key in leading to major affordability challenges, which ultimate must slow demand in both foreigner and local demand alike

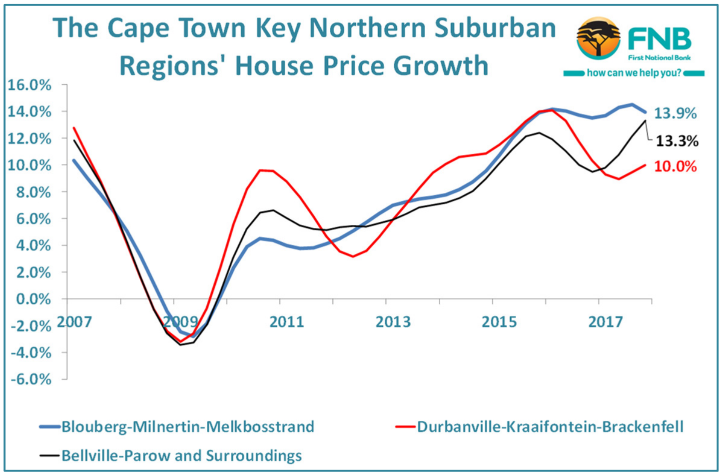
The City Bowl started its price growth slowdown a little earlier than the Atlantic Seaboard, and has gone from its multi-year year-on-year growth high of 23.5% in the 2nd quarter of 2016 to 12.0% by the 4th quarter of 2017.

The Southern Suburbs, the other one of the "most expensive 3" sub-regions, saw further slowdown from 12% in the prior quarter to 11.2% in the 4th quarter of 2017, having gradually tapered from a multi-year high of 16.3% in the 2nd quarter of 2015.

Interesting, is that the most affordable sub-region within close proximity to the City Bowl, i.e. the Near Eastern Suburbs sub-region (including amongst others Salt River, Woodstock and Pinelands), may be benefiting from the deterioration in affordability within the City Bowl region in recent years. Proximity to the City Bowl (and for that matter to Claremont Business Node) is becoming increasingly important as the city's traffic congestion deteriorates, and we have yet to see noticeable slowdown in price growth in this sub-region. From a 16.8% "low in the 2nd quarter of 2017, the Near Eastern Suburbs House Price Index showed renewed growth acceleration to 17.5% by the final quarter of last year, now showing the fastest price growth of any of the regions close to the mountain.

MORE AFFORDABLE SUBURBAN MARKETS MAY BE BENEFITING AFTER MAJOR HOUSE PRICE INFLATION AT CAPE TOWN'S HIGH END.

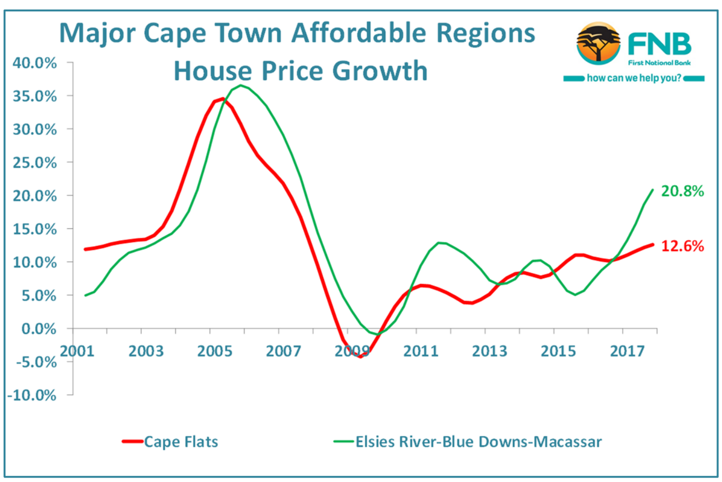
We've mentioned before that further away from Table Mountain, in Cape Town's more affordable suburban areas, the pattern of "slowdown" in price growth is less clear, and in fact there has been some acceleration in many sub-regions. The now very high prices in the areas close to the City Bowl may have been causing a portion of aspirant buyers to shift their focus to these more "affordable" City of Cape Town housing markets a little further away, in search of greater affordability.



All 3 major Northern Suburbs sub-regions thus saw some renewed acceleration in their average house price growth rates in 2017.

Admittedly, in the final quarter of 2017 the Western Seaboard Sub-Region (including Blouberg, Milnerton and Melkbosstrand) saw a slowing in year-on-year price growth after a prior 3 quarters of acceleration, but still stood solid at 13.9%.

The "Bellville-Parow and Surroundings" sub-region saw its price growth accelerate further, from 9.5% year-on-year in the final quarter of 2016 to 13.3% in the 4th quarter of 2017, while more recently the Durbanville-Kraaifontein-Brackenfell sub-region went from 8.9% growth in the 2nd quarter of 2017 to 10% in the 4th quarter.



Moving into even more affordable regions, ones which incorporate many of the city's Apartheid Era former so-called "Coloured" and "Black" Areas, we have recently seen similar price growth accelerations.

This, too, we believe could reflect a mounting search for relative affordability as higher priced "suburban" areas prices rise.

Therefore, we have seen the Cape Flats House Price Index see a growth acceleration from 10.16% year-on-year as at the 3rd quarter of 2016 to 12.6% by the final quarter of 2017, while the Elsies River-Blue Downs-Macassar Region has accelerated more significantly, from 5% as at the 3rd quarter of 2015 to 20.8% by the final quarter of 2017.

CONCLUSION

In short, overall the City of Cape Town has seen some mild slowing in average house price growth over the past 6 quarters, although the most recent 10.8% year-on-year growth rate remains strong.

When viewing the major sub-region house price indices, however, slowdown is far from across the board. Rather, it would appear that the most noticeable slowing in house price growth is at the high end, after some years of strong affordability deterioration. But the resultant search elsewhere for greater affordability has perhaps been key in sustaining solid demand lower down the house price ladder, and we have indeed seen price growth accelerations in 2017 in many of these more affordable housing regions (relatively speaking) further away from Table Mountain.

Has the drought taken its toll on the housing market in Cape Town in a significant way? We are not yet convinced. We believe the price growth slowing is more due to “market natural” causes in response to prior years of significant home affordability deterioration. Going forward, however, should the drought conditions deteriorate further, at some point it is conceivable that they may become “recessionary” for the Western Cape economy, should it reach a level where much industrial production needs to be scaled back and a lack of water hampers tourism and other economic sectors. A negative economic and employment impact should ultimately be a negative housing market impact. But we don’t believe that it has got to this level yet, and much will depend on this Winter’s rainfall.

	Quarterly year-on-year percentage change					
	Q1-2017	Q2-2017	Q3-2017	Q4-2017	Cumulative 15-year growth	Cumulative 5-year growth
CT METROPOLITAN ROLL UP	14.37%	13.19%	11.91%	10.78%	498.98%	78.77%
Mitchells Plain-Eerste Rivier	13.18%	15.72%	18.68%	20.83%	589.34%	66.58%
Bellville and Surrounds	9.80%	10.73%	12.15%	13.31%	381.11%	62.62%
Western Seaboard	13.70%	14.30%	14.50%	13.93%	378.06%	73.62%
North Eastern Suburbs	9.29%	8.94%	9.47%	10.01%	431.90%	67.81%
Southern Peninsula	12.89%	11.53%	10.72%	10.44%	453.26%	72.86%
Hottentots Holland	11.29%	10.00%	8.73%	8.08%	341.89%	54.66%
City Bowl	20.13%	17.41%	14.46%	12.03%	590.95%	113.28%
Atlantic Seaboard	26.37%	22.22%	16.22%	10.04%	734.58%	122.78%
City Eastern Suburbs	17.46%	16.80%	17.13%	17.48%	590.99%	105.19%
Southern Suburbs	13.60%	12.90%	12.04%	11.16%	493.02%	84.11%
Cape Flats	11.00%	11.63%	12.14%	12.56%	417.10%	61.37%

NOTES: AREA COMPOSITION OF THE CITY OF CAPE TOWN SUB-REGIONAL HOUSE PRICE INDICES

Main Areas Included in Each Sub-Regional House Price Index							
Former Townships	**Atlantis-Mamre**	**Elsies River-Blue Downs-Macassar**	**Bellville-Parow and Surrounds**	**Blouberg-Milnerton-Melkbosstrand**	**Durbanville-Kraaifontein-Brackenfell**	**Southern Peninsula**	**Somerset West-Strand-Gordons Bay**
Guguletu	Atlantis	Belhar	Bellville	Blouberg	Brackenfell	Cape Point	Gordons Bay
Khayelitsha	Mamre	Blackheath	Goodwood	Melkbosstrand	Durbanville	Fish Hoek	Sir Lowrys Pass
Langa		Blue Downs	Kuils River	Milnerton	Kraaifontein	Kommetjie	Somerset West
Nyanga		Delft	Parow			Noordhoek	Strand
		Eerste River				Scarborough	
		Elsies River				Simon's Town	
		Macassar					
		Matroosfontein					

City Bowl	Atlantic Seaboard	Near Eastern Suburbs	Southern Suburbs	Cape Flats	City of Cape Town Metro House Price Index
					Roll-up of all City of Cape Town sub-regions
Foreshore	Bantry Bay	Rugby	Bishopscourt	Buckingham	
V & A Waterfront	Mouille Point	Lagoon Beach	Steenberg Golf Es	Wetton	
Zonnebloem	Clifton	Kensington	Silwersteen Estate	Rondebosch East	
De Waterkant	Camps Bay	Maitland	Claremont	Ottery East	
Cape Town City C	Bakoven	Salt River	Newlands	Lansdowne	
Gardens	Fresnaye	Woodstock	Silvertree Estate	Southfield	
Tamboerskloof	Sea Point	Maitland Garden V	Tokai	Heathfield	
Devil`s Peak Estat	Green Point	Oude Molen Villag	Rondebosch	Retreat	
Vredehoek	Three Anchor Bay	Pinelands	Meadowridge	Lavender Hill	
University Estate	Hout Bay	Windermere	Mowbray	Plumstead	
Schotschekloof			Westlake	Elfindale	
Walmer Estate			Wynberg	Nerissa Estate	
Oranjezicht			Observatory	Ottery	
			Bergvliet	Ferness	
			Kenilworth	Coniston Park	
			Royal Cape	Otyhouse Estate	
			Diep River	Edward	
			Rosebank	Crawford	
			Kirstenhof	Sunlands	
			Dreyersdal	Yorkshire Estate	
			Dennendal	Pinati	
			Forest Glade	Glen Valley	
			Constantia	Romp Vlei	
			Muizenberg	Belthorn Estate	
				Fairways	
				Brooklyn	
				Romp Vallei	
				Glen View	
				Penlyn Estate	
				Eden Klein	
				Frere Estate	
				Turf Hall	
				Turf Hall Estate	
				Steenberg	
				Sheraton Park	
				Cafda Village	
				Seawinds	
				Athlone	
				Athlone	
				Grassy Park	
				Mitchells Plain	
				Philippi	
				Guguletu	
				Khayelitsha	
				Langa	
				Nyanga	