

PROPERTY BAROMETER – FORMER “TOWNSHIP” MARKETS

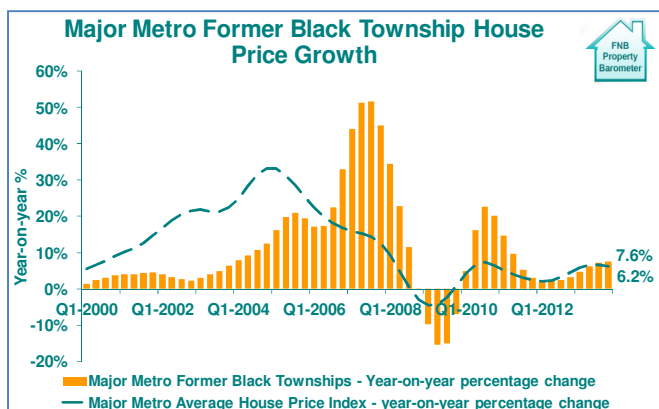
Former Black Township house price growth performance remains marginally ahead of the “Suburbs”, sustaining the “Affordability and delivery challenge”

5 March 2014

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

The areas formerly classified as “Black Township Areas” under Apartheid Era classifications, outperformed the former White “Suburbs” in terms of house price growth late in 2013, albeit only marginally.

In the 4th quarter of 2013, the FNB Former Black Township House Price Index for the 6 Major Metro regions rose by 7.6% year-on-year. This is slightly higher than the 7.1% revised growth for the previous quarter, and mildly higher than the 6.2% recorded for the entire market in the 6 major metros (Ethekwini, Cape Town, Nelson Mandela Bay, Ekurhuleni, Joburg and Tshwane).



RECENT TOWNSHIP PRICE INFLATION IS NOT EXTREME, BUT CONTINUES TO POSE CHALLENGES

The difference between former Township house price growth and that of the higher priced “Suburban” markets in recent times has been marginal. The 7.6% rate reflects some real price growth, being just above the consumer price inflation rate, and thus a solid market where demand is very well balanced with supply. A portion of the country’s 1st time buyers enter the residential markets via either the established parts

of the former “Township” markets or via so-called Affordable Housing Developments, many of which are in or around these Township areas, and a high rate of 1st time buying activity in the past few years has arguably served these markets well.

From the point of view of those already owning homes, capital growth in real terms is normally welcome news.

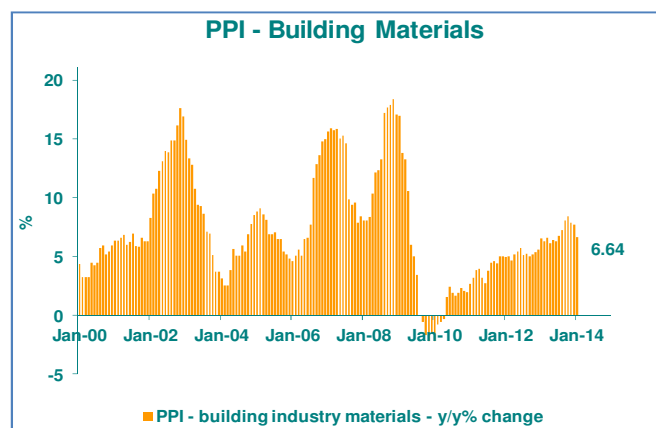
However, from a point of view of those still wanting to acquire homes, ongoing real price growth caused by relative supply constraints is perhaps less good news at the lower income end of the market.

THE COMBINATION OF BUILDING COSTS AND LOW EMPLOYMENT GROWTH CONSTRAIN NEW HOUSING DELIVERY.....

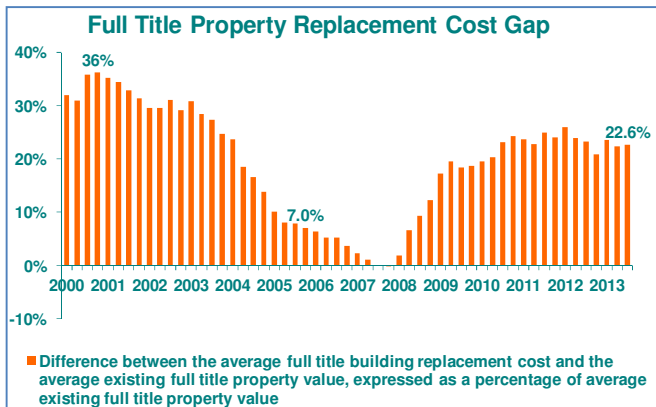
Similar to the Suburban markets, new development activity in the Township markets and their surroundings are somewhat constrained by building costs that haven’t really been declining. And the real price growth in the market is a reflection of a constrained supply side relative to demand growth.

This is less of an issue in higher income markets, but at the low income end, where the aim is to get everyone housed, this is a very significant challenge.

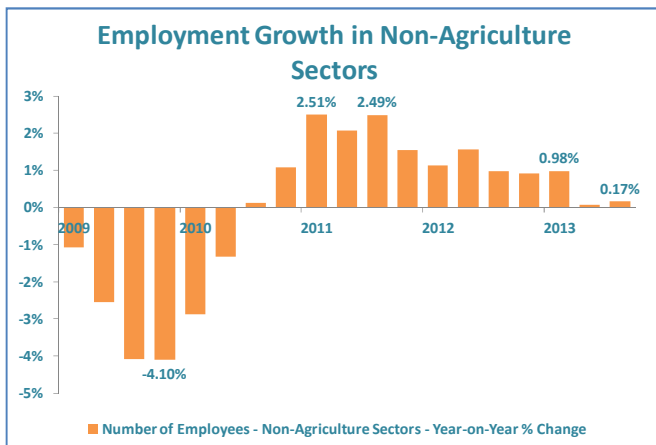
At best, of late, we may be seeing building cost inflation subside somewhat. The year-on-year inflation rate in the Producer Price Index for Building Materials slowed to 6.64% year-on-year in January, from a peak of 8.4% as at October 2013.



And so, our FNB estimate of the National Full Title Property Replacement Cost Gap, i.e. the percentage by which the average property's replacement cost exceeded the existing home value, remained at a very significant 22.6% near to the end of 2013.



However, not all of the blame can be placed on building costs. The reality is that employment growth is now down to a snails pace, and it is tough to deliver housing to a very significant number of people who don't earn a reliable income. As at the 3rd quarter of 2013, non-agriculture employment growth was a meager 0.17%.



OUTLOOK

Nevertheless, amongst those that are employed, residential demand relative to supply in the lower income areas such as the former Black Townships remains solid.

This is reflected in Major Metro Former Black Township house price growth marginally exceeding that of the so-called former “White Suburban” areas,

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whose demand-supply balances are themselves “healthy” at present.

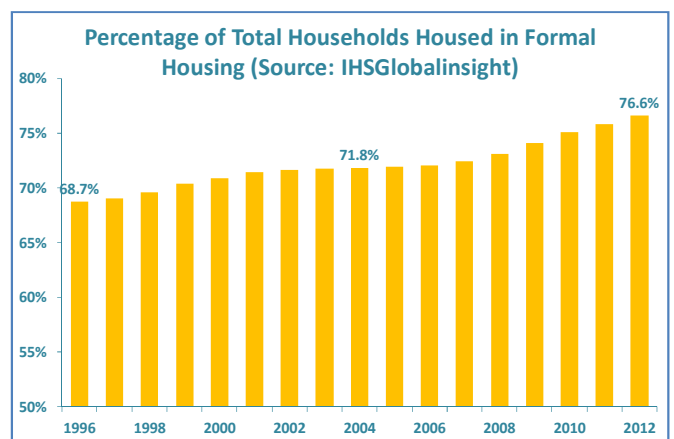
As the year progresses, it is believed that Township house price growth will continue to moderately exceed that of the Suburbs, with these markets expected to benefit relative to suburban markets from a greater search for affordability by home buyers, the result of an expected moderate rise in interest rates.

However, these markets remain credit and interest rate-sensitive, and our expectation that prime rate will rise further to end 2014 at 10% is expected to slow residential demand growth, and thus house price growth across most residential segments.

Therefore, while Township house price growth may well keep its nose ahead of the higher priced suburban markets, it too is expected to remain in single-digit territory in 2014.

HOW HAVE WE PROGRESSED WITH HOUSING DELIVERY?

The issue of weak employment growth and building costs constraining the level of new housing delivery is expected to remain. However, this is not expected to stop the gradual long term trend towards a higher portion of the country's households being housed in formal housing, but merely to restrict the pace. The percentage of households housed in such housing has risen gradually from 68.7% in 1996 to 76.6% by 2012.



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