

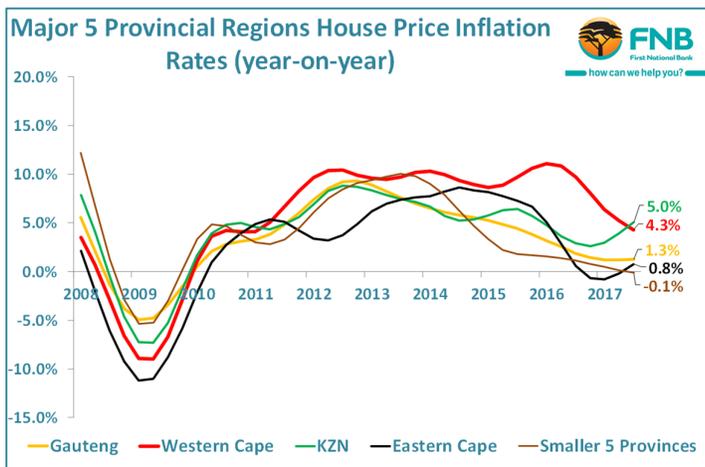
## PROPERTY BAROMETER – House Price Indices by Major Province and Major Metro

*While City of Cape Town Metro continues to “fly”, are the Western Cape’s “country regions” cooling the province’s average house price growth? Is this reflective of drought conditions gradually impacting on the region’s Agriculture economy and on confidence?*

5 October 2017

### WESTERN CAPE HOUSE PRICE GROWTH TAPERS FURTHER, BUT THE CITY OF CAPE TOWN METRO CONTINUES TO DEFY GRAVITY.

Examining the FNB House Price Indices for the country’s major regions, gradually slowing price growth in what has been the country’s top performing region in recent years, the Western Cape, continued in the 3<sup>rd</sup> quarter of 2017.



The year-on-year average house price growth for the Western Cape measured 4.3% in the 3<sup>rd</sup> quarter, slower than the 5.2% revised rate of the previous quarter and now significantly slower than the 11.1% revised multi-year high recorded in the 1<sup>st</sup> quarter of 2016.

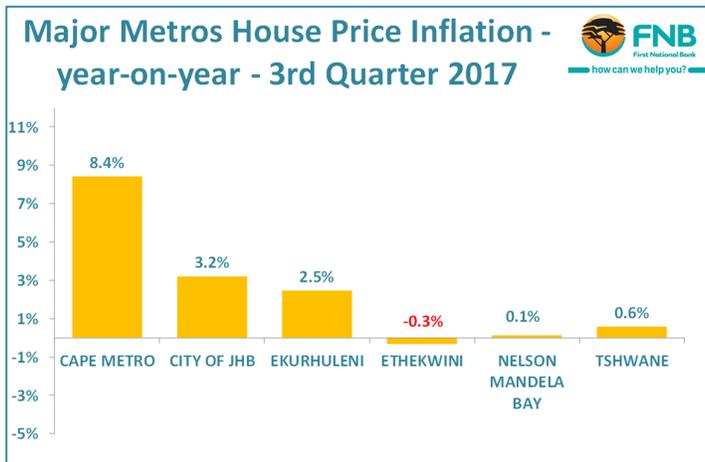
This further price growth slowing means that, for the 1<sup>st</sup> time since late 2013, the Western Cape no longer has the fastest growing house price index.

The FNB KZN House Price Index accelerated to a slightly faster year-on-year growth rate of 5.0% in the 3<sup>rd</sup> quarter of 2017.

These developments may seem surprising to some, given that we have recently rated the large Ethekewini (Durban and surroundings) Metro housing market as very weak, while the City of Cape Town Metro still appears to be “flying high”.

The explanation is that the relative strength in KZN, not that 5% growth represents a “strong” market, appears to be a little more outside of Ethekewini Metro, while in the Western Cape the relative weakness appears to be outside of the City of Cape Town Metro.

Examining the quarterly year-on-year house price growth rates for the 6 Major Metros, we see City of Cape Town continuing to show strength, recording growth of 8.4%, far above any of the

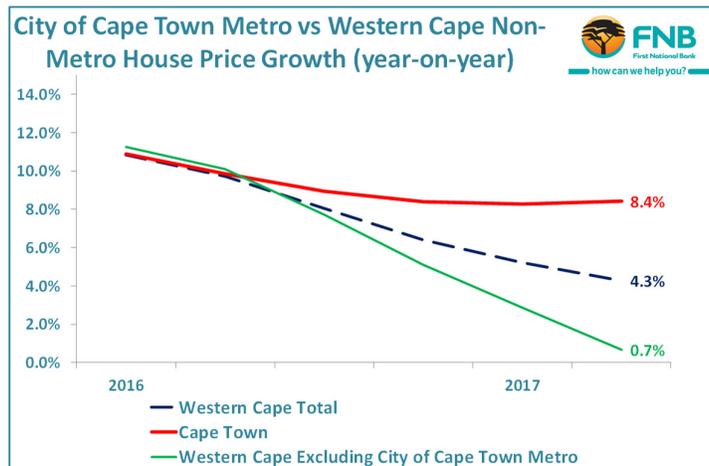


others.

By comparison, Ethekewini remained in the doldrums in the 3<sup>rd</sup> quarter with a lowly -0.3% slight negative growth rate in its house prices. We compiled a KZN House Price Index excluding Ethekewini Metro, and this average house price growth rate showed year-on-year growth of 6.8% in the 3<sup>rd</sup> quarter, which is indeed above the province’s average.

## WESTERN CAPE – METRO VS NON-METRO HOUSE PRICE GROWTH

A key question in the case of the Western Cape is whether the severe drought conditions are either impacting on many Non-Metro Towns' housing markets via an actual impact on strongly Agriculture-dependent economies in the region or, failing a severe actual impact yet, a dampening of confidence amongst households in the region?



Even the City of Cape Town's 8.4% most recent average house price growth rate is off a multi-year high of 11.3% registered in the 1<sup>st</sup> quarter of 2016. But it remains far stronger than our FNB "Non-Metro" Western Cape House Price Index, which excludes the City of Cape Town. The latter index hasn't seen average price decline, but has seen its year-on-year growth slow all the way to 0.7% by the 3<sup>rd</sup> quarter of 2017, after having actually started last year with 11.3% growth, virtually the same as the Metro.

## AFFORDABILITY CHALLENGES AND DROUGHT CONDITIONS COULD CONCEIVABLY SLOW WESTERN CAPE HOUSE PRICE GROWTH

Slowing average house price growth has been something that we have expected to happen in the Western Cape for a while, after strong house price growth in the region has caused mounting affordability challenges. Indeed, slowing price growth has taken place both within and outside of the City of Cape Town Metro, according to our indices, but the Metro's price growth appears to have held up better than the Non-Metro regions.

The Non-Metro regions of the Western Cape have, on average, possibly not had as strong an economic growth rate in recent times as the City Metro. Many Agriculture-dependent towns not only have an extreme drought to contend with, but down in the Southern Cape there were the extreme fires through much of the area recently, and such events must surely have an impact on the economies and incomes of those regions, either directly or via a dent on confidence levels. This can constrain the "pricing power" of home sellers as buyers become more cautious.

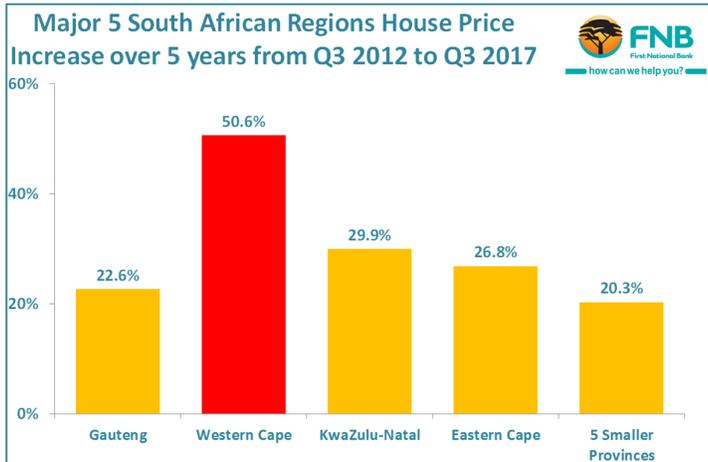
One may also find that non-essential forms of home buying, such as holiday home buying, don't quite keep pace with primary residential demand in these tougher economic times, and this could give the primary residence-dominated City of Cape Town market an advantage over the province's coastal holiday towns should these tougher economic times continue.

**It is important to note that we are not yet talking about average house price decline in the Western Cape Non-Metro regions but about price growth "flattening out" after a strong run in recent years. It would appear that the Non-Metro regions of the Western Cape currently have greater economic challenges than the City of Cape Town Metro.**

## GAUTENG POSSIBLY DUE FOR A SLIGHT LIFT

The FNB Gauteng Province House Price Index remained in slow growth territory in the 3<sup>rd</sup> quarter of 2017, showing a year-on-year rise of 1.3%, which is only slightly higher than the 1.2% of the previous quarter.

However our FNB Estate Agent Surveys in recent times have pointed to Gauteng's 3 Metros having the lowest average time of homes on the market, thus being arguably the most "price realistic", or closest to market equilibrium, of the major metro housing markets. It is conceivable, therefore, that while we anticipate slowing house price growth in the Western Cape in the near term, after that province's strong run, Gauteng house price growth may just start to improve slightly.



Cumulatively, over the past 5 years, from the 3<sup>rd</sup> quarter of 2012 to the 3<sup>rd</sup> quarter of 2017, the Western Cape’s house price growth has far outpaced the other major regions, rising by 50.4%, with KZN being a distant second recording 29.9%, Eastern Cape 26.8%, Gauteng 22.6% and the 5 Smaller Provinces 20.3%

No “fireworks” are expected in any major provincial region in the near term, however, with our expectation for the national average house price growth rate remaining in lower single digits, and none of the major regions expected to deviate too far from the national average.

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