PROPERTY BAROMETER – FORMER "TOWNSHIP" MARKETS

In the 2nd Quarter of 2015, Former Black Township house price growth continued to accelerate and outstrip the higher priced "Suburban" regions, but we expect a tapering by next year

19 August 2015

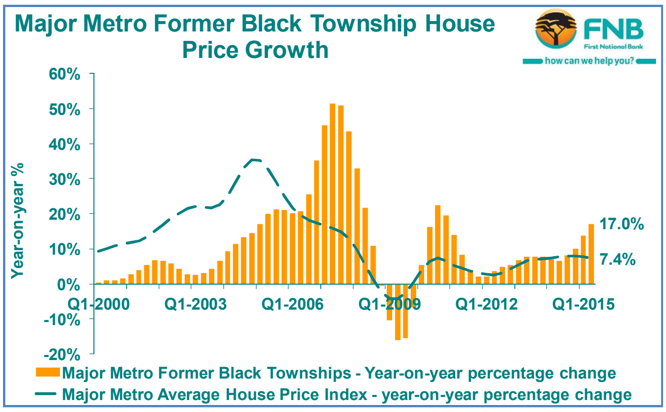
ARE FORMER "TOWNSHIPS" HOUSING MARKETS A USEFUL "LAGGING" INDICATOR"?

The areas formerly classified as "Black Township Areas" under Apartheid Era classifications, saw their house price inflation rate continue to accelerate and outstrip that of the higher value "Former White Suburban Area" in the 2nd quarter of 2015.

Their higher average house price growth appears to reflect greater residential supply constraints relative to demand, compared with the former "White suburban Areas" or areas with other former race classifications.

However, it may also point to a typical "late in the cycle" search for affordability, as the household sector starts to feel more financially constrained.

The FNB House Price Index for areas formerly classified as "Black Townships" in the 6 Major Metro regions rose by a very strong 17% year-on-year. This is up from a revised 13.7% in the previous quarter, and was significantly higher than the overall Major Metro Regions House Price Index (Ethekwini, Cape Town, Nelson Mandela Bay, Ekurhuleni, Joburg and Tshwane) growth rate of 7.4%.



The Former Townships, however, remain the most affordable areas of the market on average, with an average estimated house price of R339,717.

This relative affordability search may have a lot to do with a superior rate of house price growth that lags the higher valued "suburban" markets.

This is not the first time we have seen a big surge in Township house price growth a considerable time after the peak in house price growth in the overall Metro Residential Market.

We saw this a decade ago, too, where Major Metro overall house price inflation peaked at the end of 2004 at 35.4% year-on-year. Township house price inflation only peaked a few years later at 51.4% in the 2nd quarter of 2007, by which time the cracks were showing in the economy, interest rates were rising and the overall residential market was slowing.

This time around, as economic news deteriorates, growth has slowed for 3 consecutive years, and interest rates are rising slowly, once again it is Township house price inflation that accelerates while the overall market's house price inflation has mildly tapered.

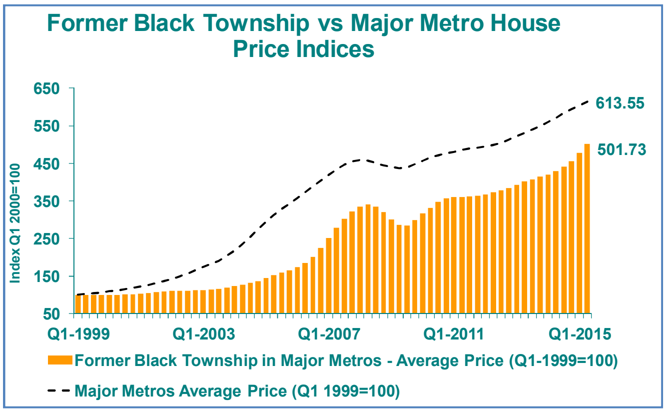
There exists the possibility that, as affordability starts to deteriorate in the normal suburban markets, there is a turn by some to the townships as they search for greater affordability.

But this lag may also say a lot about lower income households moving slower on home buying decisions than upper income households, the result of far more limited financial resources and perhaps a slower flow of information regarding market trend changes.

The lower income groups are highly credit dependent, and often work in more cyclical sectors in larger numbers, such as manufacturing. The township market therefore also appears to be noticeably more volatile than the suburban markets over time, with higher house price growth peaks and lower troughs, as the -16% year-on-year drop will show back in the 2nd quarter of 2009.

Have former Township markets outperformed the "suburbs" over the longer term. Overall, since the 1st quarter of 1999 (when interest rates had just started their big pre-boom drop) it would appear not. 513.55% cumulative Major Metro house price inflation outstrips 401.73% for the Township Index.

However, it is plausible that segments of the Townships have outperformed the overall Metros, probably in the area of Full Title properties built in new "affordable" developments. These new developments have proven to be very popular.



But if one takes one's starting point as, say, 2004, then the Metros only rose 181.7% to the 2nd quarter of 2015, while the Township Price Index rose 307%.

So relative price growth performances depend on the starting point of one's analysis, but since around 2004 the Township average prices have narrowed the gap with the suburbs.

Will they ever catch up? Perhaps some, as structural change slowly comes to the townships. By that we refer to creating more of an economy in these areas, implying more employment, and reducing their "dormitory town" status where many people commute long distances to other parts of the cities for work.

Key also is linking up the townships with the larger economies of the suburbs and industrial areas by improved public transport corridors. This is emerging slowly, but the process still has many years to go, and the result is that many of the more highly skilled people who may have grown up in the townships will continue to relocate to the former "white" suburbs in significant numbers, nearer to places of employment and in some instances nearer to high quality retail and entertainment, although retail is improving in the Townships.

Therefore, we remain of the belief that, for the foreseeable future the so-called former Black Townships will remain on average the most affordable residential regions, despite a recent surge in average Township home values. However, home buyers often have to weigh high transport costs and long transport times to places of work against home affordability, so relative home affordability isn't attractive to everyone.

In the very near term, Township house price inflation could significantly outstrip Suburban house price inflation, but we would expect that by next year house price growth in these areas would also start to slow, curbed by expected further rises in interest rates and the reality of a weak economy and weaker rates of net job creation that appear to be coming our way.

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