

PROPERTY BAROMETER – TOWNSHIP MARKETS

Former Black Township price growth performance marginally ahead of the Suburbs of late, but how have they fared in the longer term?

6 August 2013

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

The areas formerly classified as “Black Areas” under Apartheid Era classifications have outperformed the former White “suburbs” in terms of house price growth for much of the period since 2006, playing catch up off a very low price base. And we estimate that they have been marginally outperforming as of late too.

In the 2nd quarter of 2013, the FNB Former Black Township House Price Index for Major Metro regions rose by 8.4% year-on-year. This was mildly higher than the 6.3% recorded for the entire market in the 6 major metros (Ethekwini, Cape Town, Nelson Mandela Bay, Ekurhuleni, Joburg and Tshwane). This growth also represents an improvement on the 1st quarter’s 5.7% for Metro Township regions.

purchasing power to a greater degree, compared with higher income suburban markets whose residents have built up more significant wealth buffers in many instances.

So, around the 2008/9 recession and interest rate peak, the Township House Price Index saw a more significant house price deflation trough, reaching -15.1% year-on-year decline by the 2nd quarter of 2009 (compared to the more mild overall Metro low point of -4.5% decline).

But when the market has periods of strengthening, such as in 2009/2010 when interest rates were falling fast and the economy was recovering from the recession, one also saw the Township House Price growth rate rebounding more impressively than the overall market off a low base.

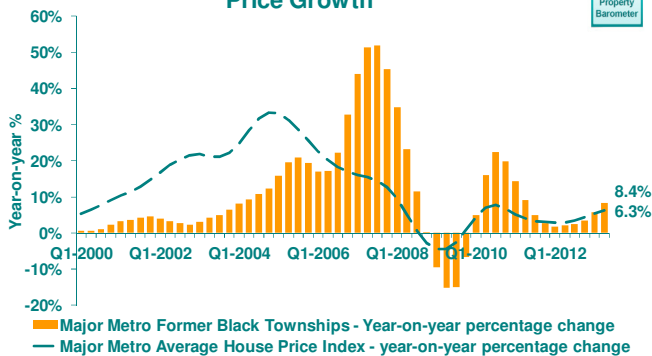
Therefore, we should perhaps expect the Township House Price growth rate to mildly outperform the rest in the near term, with the residential market going through a relatively good patch, with interest rates low and access to credit for entry level buyers good. These are the conditions in which these low end markets should do a little better than the higher end perhaps, and Townships do indeed represent the most affordable part of the residential market, with an estimated average transaction price of R281,953 as at the 2nd quarter.

HAVE TOWNSHIP PRICES “OVERSHOT”??

After number of years of very strong house price growth in the former Black Township markets (since around 2004), it is probably apt to ask the question as to whether their prices have got a bit ahead of themselves? This is always a tough one to answer, but perhaps the price performance has not been as extreme as many believe, when one looks at the longer term picture at least.

Much has been made of the “normalization” of former Black Township housing markets in recent years, as they emerged from the dark days of Apartheid where they were often turbulent “no go zones” as the Liberation Struggle raged.

Major Metro Former Black Township House Price Growth



TOWNSHIP PRICE TRENDS APPEAR TO BE MORE CYCLICAL THAN THE “SUBURBS”

Township markets have shown to be a bit more cyclical than the overall metro residential market, and this probably has much to do with a greater dependence on credit-driven home purchases amongst lower income groups. In addition, though, the economic cycle may also affect lower end employment trends and

And certainly, Township house price growth really started to gather noticeable momentum in 2004, and peaked at a massive 51.9% in the 3rd quarter of 2007, 2.5 years after the growth peak in our Major Metro House Price Index.

This lagged boom in Township prices is believed to have been driven by a growing search for affordability in these markets following the earlier deterioration in affordability in the Suburban markets, but much has also been made of the positive impact of major infrastructure upgrades in these regions, as well as dramatic improvements in retail facilities

The upgrades to these areas must surely have made many Township areas far more attractive places to live than was previously the case, and this should have a positive impact on house prices.

But perhaps we should not get too carried away with the magnitude of such positive impacts to date. While the Township House Price Index has seen superior growth to the overall Metro House Price Index since around 2006, going back to the beginning of 1999, where the great property boom of last decade had its approximate origin, the picture is a little different.

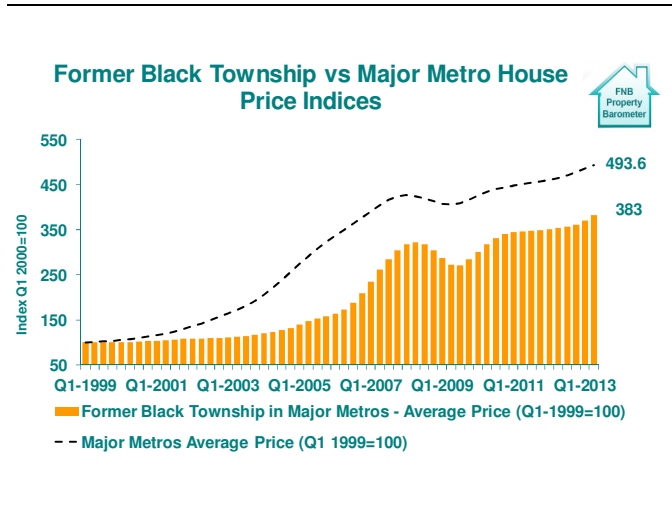
Setting the base at the 1st quarter of 1999 for both price indices (admittedly, a starting point for comparisons is always debatable, and I take this one merely because it is where the boom more or less started), one sees that on a cumulative basis, from 1999 to 2013, Township house price growth has perhaps underperformed the Suburban markets significantly.

Whereas the Major Metro House Price Index rose cumulatively by 393.6% from early-1999 to the 2nd quarter of 2013, the Township Index rose by a lesser 283% in total.

Does this fly in the face of much of the hype surrounding the “normalization” of the Townships into suburbs with good infrastructure and services such as retail? No, not necessarily. But it does suggest that the Townships have some way to go before being able to compete more significantly with the Former White Suburbs for the residential purchasing power of middle-to-higher income households.

The infrastructure and retail upgrades have indeed been impressive, and they will continue. However, the next major step in the transformation of former Black Township regions is for these regions to lose their “dormitory town” status, through the creation of more alternative business and industrial nodes in closer proximity, which can serve as far more significant places of employment for a far greater portion of their residents. This remains a key challenge, as the Apartheid city was designed in such a way that Townships were generally further away from existing major business nodes than the white Suburbs were, and commuter transport costs from these regions to places of work often remain high to this day.

Therefore, the long term improvement and upgrades will continue. But for the time being, many Black households with the financial means will continue for the foreseeable future to migrate to the more mixed use Suburban areas. Township regions are showing a lot of promise, but there is a long way to go, and long term Township house price growth has perhaps not been as extreme as it would appear.



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

JOHN LOOS:
HOUSEHOLD AND PROPERTY SECTOR STRATEGIST
011-649 0125
John.loos@fnb.co.za

The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by Firstrand Group Limited and / or the authors of the material.