

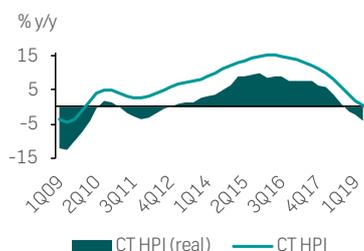


Cape Town Sub-Regional House Prices

+0.5%
y/y City of Cape Town HPI

-0.2%
q/q City of Cape Town HPI

Figure 1: Slowest price growth since 2009



Source: Stats SA, FNB Economics

Figure 2: First-time buyer – Pent-up demand amid favourable pricing



Source: FNB Economics

Figure 3: Time on the market also improved slightly



Source: FNB Economics

Pressure spilling over to middle-priced areas

Key takeaways

- Our 2Q19 City of Cape Town Sub-Regional House Price Indices showed the pricier regions to have fallen deeper into deflation (this has become a common theme across affluent suburbs in South Africa).
- This pressure appears to be spilling over to middle-priced areas. By contrast, lower-priced areas remained resilient, and comfortably in the double-digit territory.
- Market activity indicators remain relatively intact, with recovering trends in first-time buyer and buy-to-let activity.

Downfall continues in the City of Cape Town

Using deeds data, we compiled a set of house price indices for the main sub-regions in the City of Cape Town, then aggregated these into an overall City of Cape Town Metro House Price Index. The 2Q19 data showed the city’s estimated average house price growth to have softened further to just 0.5% y/y, from 1.8% in 2Q18 (revised up from 1.2% y/y). In real terms (i.e. considering the effect of inflation), average house prices have been declining for a year now. As we show below, price growth is weighed on by the intensified pressure in the affluent areas, which now appears to be spilling over to middle-priced areas. Overall, this marks the slowest growth rate since the end of 2009 and comes as no surprise, given the generally weak economic fundamentals and house prices that have for some time far outpaced income growth in the region and thereby eroded affordability. At the same time, foreign buyers continue playing a less prominent role in the domestic market, while emigration sales have intensified.

Surveyed data shows it is not all gloom and doom

The FNB Estate Agents Survey results show lukewarm activity in the city, although slightly improved from levels witnessed towards the end of 2018. In response to lower demand, data shows the intensifying extent to which sellers are dropping their asking price, lifting from an average of 8.2% in 1Q19 to approximately 12% in 2Q19. The national average was estimated at 9.9% in 2Q19.

Notwithstanding the apparent weakness, some indicators point to a resilient market, and in some instances show nuggets of improvement. Presumably, this is as buyers capitalise on favourable pricing, primarily in the affluent segments. For instance, the length of time a property is on the market improved to 12 weeks and 4 days in 1H19, from around 16 weeks in the same period last year, according to agents. New buyer enquiries (as measured by the “number of serious viewers per showroom”) improved slightly to 11 in 2Q19 (from 10 in the previous quarter and versus a national average of 10), indicating that buyer enthusiasm is relatively stable. This is in line with the FNB Consumer

Analyst

Siphamandla Mkhwanazi

Zharina Francis (Statistician)

Contact us:

Website: www.fnb.co.za/economics-commentary

Email: Siphamandla.Mkhwanazi@fnb.co.za

Tel: 087 312 3280

Confidence Index (CCI), which gauges sentiment in the Western Cape as relatively more optimistic compared to the country average. The CCI survey results for 2Q19 showed consumers in the province as more upbeat about future economic outcomes, their finances, as well as their rating of the current time as appropriate to purchase big-ticket items.

Importantly, the favourable pricing appears to have spiked demand from first-time buyers. The agents' estimate of first-time buyer transactions in Cape Town jumped to pre-boom norms, averaging 22% in 1H19. This suggests that there were 3.3 times more first-time buyers in the Cape Town market in 1H19 than there were two years ago. While this may be a transitory spike (following approximately two years of price-induced exile), it brings the first-time buyer participation more in line with the country average. Buy-to-let activity also appears to be improving, estimated to have accounted for 10.6% of total volume, up from 9.4% in 1Q19. Both these sources of demand play a critical countercyclical role during market downturns by reducing surplus stock, thereby paving a way for the market to recover.

Higher-end sub-regions remain under pressure

The upmarket sub-regions continue to take a hit and virtually all of them fell deeper into deflation. The most expensive sub-region in the City of Cape Town Metro, the Atlantic Seaboard, slid to -3.7% y/y from -3.2% y/y in 1Q19 (revised up from -5.1%). Similarly, the City Bowl, the economic hub of the region, slid deeper into contraction in 1Q19, registering -5.7% y/y from -3.6% y/y (revised down from -2.0%) in the previous quarter. The Southern Suburbs (incorporating suburbs such as Claremont, Newlands and Observatory) followed suit and contracted by 4.9% y/y from -2.2% y/y in 1Q19. In the same vein, the Eastern Suburbs (incorporating suburbs such as Woodstock, Maitland and Pinelands), which for some time held up better than the rest of the regions surrounding Table Mountain, declined by 5.3% y/y from -3.2% in 1Q19 (revised up from 4.2% y/y).

Pressure trickling down to middle-priced sub-regions

Pressure appears to be spilling down the price ladder, and away from the mountain. Sub-regions in the Northern Suburbs (generally in the middle of the price spectrum) showed a sharp deceleration in house price growth in recent quarters. For some time, these regions were perceived as offering more affordable housing opportunities, as affordability deteriorated rapidly nearer the mountain. Ultimately, prices overshot and completely counteracted their initial attractiveness. Unsurprisingly, as demand slowed, price growth slowed. To this end, the Western Seaboard sub-region slid into mild contraction of -0.3% y/y in 1Q19, from 1.3% y/y in 1Q19 (revised down from 1.7%). The Bellville-Parow and Surroundings (including Goodwood) and Durbanville-Kraaifontein-Brackenfell sub-regions, while holding relatively better, slowed further to 3.4% and 1.6% y/y from 4.8% and 2.3% y/y respectively.

Lower-priced regions outperforming

The more affordable sub-regions in the city, which incorporate township areas, are performing well above the city's average and remain in the double digits. Latest data shows the Elsies River/Blue Downs/Macassar region to have done very well in the first half of 2019, and it is easily the best performing sub-region. Average house price growth jumped to 16.1% y/y in 2Q19, from an upwardly revised 12.9% in 1Q19. The Cape Flats region has held relatively steady around the 12% mark over the past year, although it retreated to 11.1% y/y in 2Q19 from 12.1% in 1Q19.

In conclusion

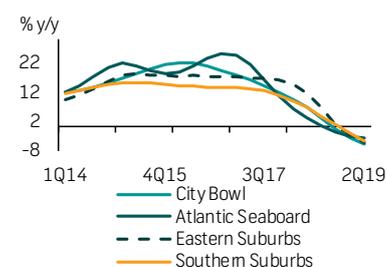
Looking ahead, housing market trends will remain heavily dependent on developments in the broader economy. In the near term, low borrowing costs will provide underlying support, though the weak labour market is likely to continue to exert a drag on sentiment and activity.

Table 1: City of Cape Town house prices 2Q19

	Elsies River-Blue Downs-Macassar	Bellville-Parow and Surrounds	Blouberg-Milnerton-Melkbosstrand	Durbanville-Kraaifontein-Brackenfell	Southern Peninsula	Somerset West-Strand-Gordons Bay	City Bowl	Atlantic Seaboard	Eastern Suburbs	Southern Suburbs	Cape Flats	City of Cape Town Metro
1Q19	12.9	4.8	1.3	2.3	-1.9	3.6	-3.6	-3.2	-2.9	-2.2	12.1	1.8
2Q19	16.1	3.4	-0.3	1.6	-3.2	1.6	-5.7	-3.7	-5.3	-4.9	11.2	0.5

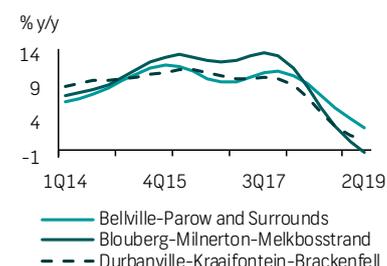
Source: FNB Economics

Figure 4: Deflation underway in upmarket regions



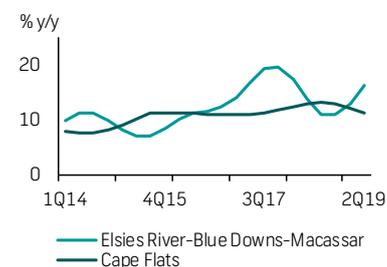
Source: FNB Economics

Figure 5: Pressure trickling down middle priced areas



Source: FNB Economics

Figure 6: Lower-end of the market still at double digits



Source: FNB Economics

Appendix

Atlantis–Mamre

Atlantis, Mamre

Elsies River–Blue Downs–Macassar

Belhar, Blackheath, Blue Downs, Delft, Eerste River, Elsies River, Macassar, Matroosfontein

Bellville–Parow and Surrounds

Bellville, Goodwood, Kuils River, Parow

Blouberg–Milnerton–Melkbosstrand

Blouberg, Melkbosstrand, Milnerton

Durbanville–Kraaifontein–Brackenfell

Brackenfell, Durbanville, Kraaifontein

Southern Peninsula

Cape Point, Fish Hoek, Kommetjie, Noordhoek, Scarborough, Simon's Town

Somerset West–Strand–Gordons Bay

Gordon's Bay, Sir Lowry's Pass, Somerset West, Strand

City Bowl

Foreshore, V & A Waterfront, Zonnebloem, De Waterkant, Cape Town City Centre, Gardens, Tamboerskloof, Devil's Peak Estate, Vredehoek, University Estate, Schotschekloof, Walmer Estate, Oranjezicht

Atlantic Seaboard

Bantry Bay, Mouille Point, Clifton, Camps Bay, Bakoven, Fresnaye, Sea Point, Green Point, Three Anchor Bay, Hout Bay

Eastern Suburbs

Rugby, Lagoon Beach, Kensington, Maitland, Salt River, Woodstock, Maitland Garden Village, Oude Molen Village, Pinelands, Windermere

Southern Suburbs

Bishopscourt, Steenberg Golf Estate, Silwersteen Estate, Claremont, Newlands, Silvertree Estate, Tokai, Rondebosch, Meadowridge, Mowbray, Westlake, Wynberg, Observatory, Bergvliet, Kenilworth, Royal Cape, Diep River, Rosebank, Kirstenhof, Dreyersdal, Dennendal, Forest Glade, Constantia, Muizenberg

Cape Flats

Buckingham, Wetton, Rondebosch East, Ottery East, Lansdowne, Southfield, Heathfield, Retreat, Lavender Hill, Plumstead, Elfindale, Nerissa Estate, Ottery, Ferness, Coniston Park, Otyhouse Estate, Edward, Crawford, Sunlands, Yorkshire Estate, Pinati, Glen Valley, Romp Vlei, Belthorn Estate, Fairways, Brooklyn, Romp Valle, 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