

Major provinces May house price inflation: softer

Rising unemployment crimps mortgage supply & demand

Introduction to our series of Regional House Price Indices

Socioeconomics and wealth levels differ markedly across provinces, as do economic drivers. Consequently, housing supply & demand differs across regions, leading to an uneven performance in property prices. For example, GDP per capita in Gauteng is estimated to be 2.5 times that of the Eastern Cape, and average household disposable income in the Western Cape is 4 times that of Limpopo. Demand for housing in North West might be very sensitive to commodity price cycles, while in Gauteng it might be more sensitive to the performance of the financial sector. To this end, the SBR's Provincial House Price Index (PHPI) aims to provide a more comprehensive analysis of residential property in South Africa through regional price differentiation. The PHPI relies on Standard Bank's mortgage applications, as well as Deeds Office data (see Methodology on page 4).

Stats SA's Quarterly Labour Force Survey (QLFS) for Q1:17 showed that unemployment rose to 27.7%, the highest since the inception of QLFS data in 2008. The rise in unemployment was common across all the "major provinces" (Eastern Cape; Gauteng; KwaZulu-Natal and Western Cape). Hardest hit was the Eastern Cape, with unemployment rising from 28.4% in Q4:16 to 32.2% in Q1:17; followed by Gauteng with 29.2% from 28.6% in Q4:16. The Western Cape had relatively lower unemployment rate, at 21.5%, up from 20.5% in Q4:14, while KZN recorded a 25.8%, from 23.9% in Q4:16 (Figure 3). The rising unemployment poses a threat to household income growth, eroding affordability. In turn, this **restricts growth in demand and supply of mortgages and, ultimately, property prices.**

Gauteng

House price inflation in Gauteng slowed in May. The median house price in Gauteng rose to R880,000, which is 5.4% higher than the same period last year, up from a downwardly revised 5.6% y/y growth in April (Figure 1). Sub-indices show that this growth was driven by freehold properties, with flats & townhouses still under pressure. A median price for a freestanding property in Gauteng was R920,000 in May, while the median price of a flat/townhouse was R850,000.

Month-on-month, the median price of a house transacted in Gauteng was 0.1% lower in May than April. This signals that the recovery in Gauteng house prices in Q1:17 may be losing steam, as consumers are under increasing financial pressure.

Figure 1: SBR's PHPI indicators: May 2017

	Median house price	% y/y growth	% m/m growth	Freestanding house	Flat/Townhouse
Eastern Cape	R 822 500	6.0	-0.2	R 870 000	R 687 500
Gauteng	R 880 000	5.4	-0.1	R 920 000	R 850 000
Kwa-Zulu Natal	R 900 000	4.8	0.4	R 938 745	R 850 000
Western Cape	R 1 250 000	8.6	-0.5	R 1 400 000	R 938 000
Rest of SA	R 800 000	-0.3	1.0	R 825 000	R 625 000

Source: Standard Bank Research

Economist

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Western Cape

Although still relatively strong, prices in the Western Cape slowed sharply in May on surging property prices, which may have effectively priced out middle-income and first-time buyers in some areas. We estimate that cash transactions in the Western Cape have surpassed mortgaged-backed transactions (Figure 2) indicating that Western Cape now attracts more “affluent” buyers.

The median house price in Western Cape in May was R1,250,000, 8.6% higher than the same period last year (Figures 1 and 5). This is 0.5% lower than April, indicating that house price growth is indeed slowing. The median price for a freestanding property in the Western Cape was R1,400,000 in May, while that of a flat/townhouse was R938,000.

KwaZulu-Natal

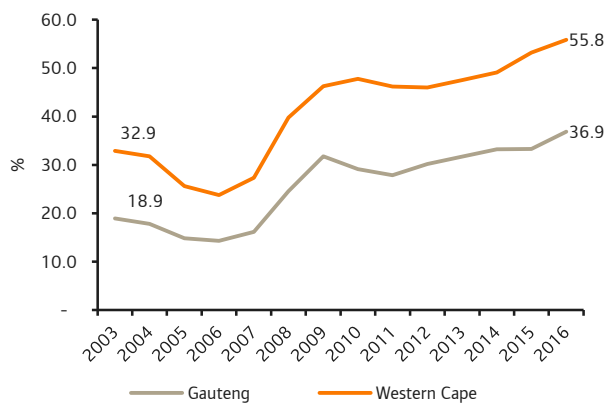
In KwaZulu-Natal, property prices in May reversed the gains made in April. The median house price in the region rose 4.8% y/y, to R900,000 (Figures 1 and 6) from 5.5% y/y in April. On a month-on-month basis, however, KZN recorded 0.4% growth in May, same as in April. The median price of a freestanding house in the region was R938,700 in May, while that of a flat/townhouse was R850,000. This month saw some renewed pressure on freestanding houses, which in the recent past have been enjoying popularity with affluent buyers.

Eastern Cape

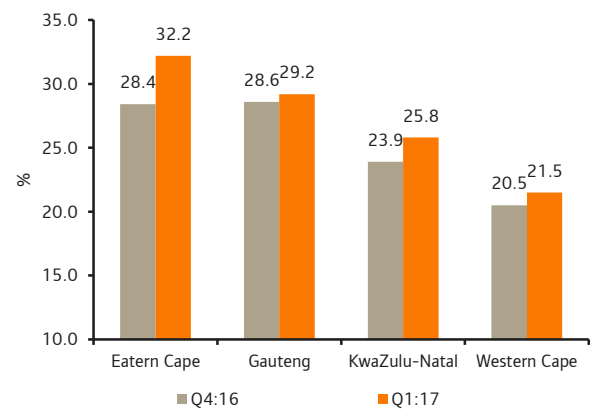
The Eastern Cape moderated in May, and is still being aided by favourable base effects. The median house price in the region was R822,500 in May, up 6.0% y/y (Figures 1 and 7). The house price index shows that prices in the Eastern Cape bottomed around April/May 2016. Positive base effects are expected to fade in the next few months, and therefore it is unlikely that these growth levels will keep up. Month-on-month, the province recorded a decline of 0.2% in May, from positive growth of 0.7% m/m in April. The median price of a freestanding house was R870,000 in May, while that of flats/townhouses was R687,500.

Rest of South Africa

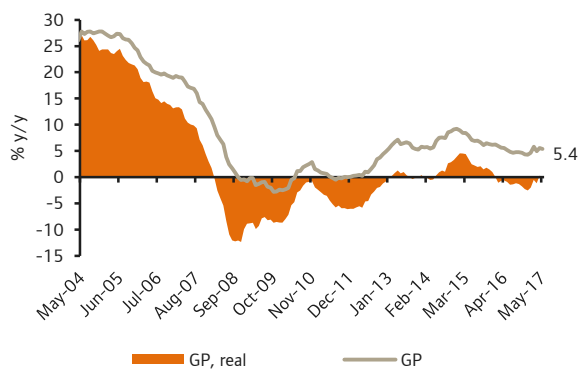
The rest of the provinces have low volumes of property transactions, making it difficult to create a stable HPI per province, and even more so in April, considering the number of public holidays. However, the available data shows that **house prices in the Free State and the North West remain under pressure, both experiencing house price deflation in nominal terms. North West, however, is showing signs of improvement, with house price growth now just marginally below 0% y/y. In contrast, Limpopo, Mpumalanga and the Northern Cape have recorded relatively stronger growth.** The median house price in these regions was R800,000 in April, recording average growth of -0.3% y/y and 1.0% m/m (Figure 1).

Figure 2: % proportion of cash transactions to total property transactions: GP vs. WC

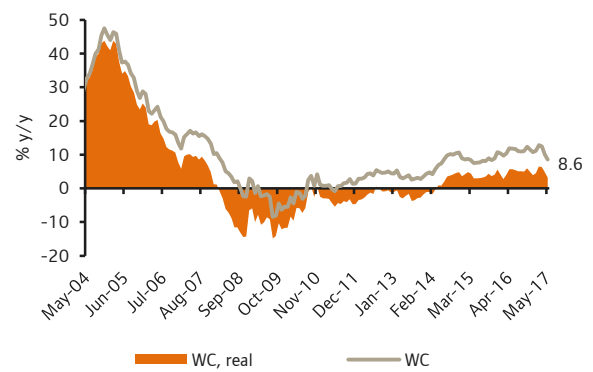
Source: Standard Bank Research

Figure 3: Rising unemployment poses a threat to mortgages demand and supply

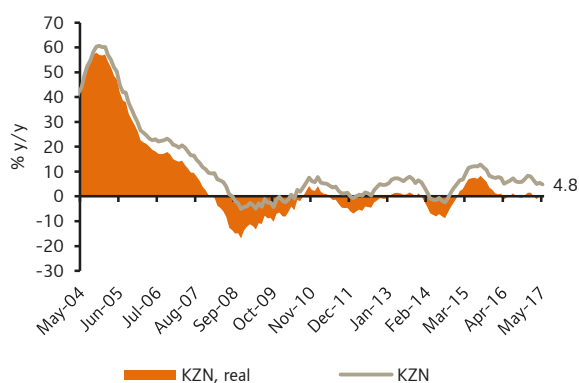
Source: Stats SA, Standard Bank Research

Figure 4: Gauteng house price softened marginally in May

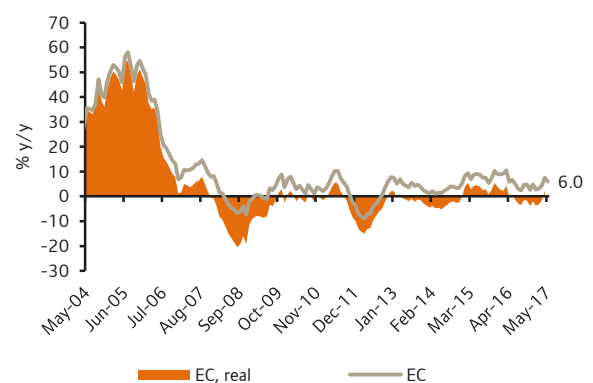
Source: Standard Bank Research

Figure 5: Western Cape prices moderating

Source: Standard Bank Research

Figure 6: KZN prices softened in May

Source: Standard Bank Research

Figure 7: Eastern Cape moderated in May

Source: Standard Bank Research

Methodology

The SBR's Provincial House Price Index (PHPI) measures price developments for residential properties sold in each province and financed by Standard Bank. The SBR PHPI measures the median price of properties sold — the advantage of a median is that it is not unduly influenced by extreme values and outliers.

The main technical characteristics are:

- *Market prices for residential properties are captured, while non-market prices are not, meaning that self-built properties are excluded;*
- *The price of land is included in the price (gross acquisition concept);*
- *We exclude purchases of houses by corporates; and*
- *Prices cover the acquisition cost of a property. We do not include transaction costs.*

The PHPI differs slightly in scope from the national HPI in that the former relies strictly on actual market prices, while the latter uses the assessment value of properties.

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