

the study

Insights into the dynamics of the Residential Property Market

Pam Golding Properties Research

Summer 2016

THE CAPE REMAINS KING

Ongoing semi-gratation impacts Cape metro and coasts from Western Seaboard to Garden Route **P4**

FIRST TIME BUYERS FLOCK TO JOBURG

First-time buyers remain a significant source of demand, underpinning Gauteng housing market **P6**

INVESTMENT FUELS KZN HOUSING

Major developments on KZN North Coast are fuelling a rebound in the regional housing market **P9**



Dr Andrew Golding
Chief Executive



Welcome to the Summer 2016 issue of The Study, incorporating the Pam Golding Residential Property Index

Making sound property investment decisions when purchasing a home during a housing boom tends to be relatively straightforward - most regions, price bands and housing categories typically register healthy price increases when economic activity is brisk, new employment opportunities are plentiful and household finances are improving.

However, during an economic downturn or financial shock, the housing market comes under pressure — activity levels decline and house price inflation slows.

It is nonetheless still possible to make sound property investment decisions in this environment because — even as the overall housing market slows — the divergent performances of various metros, as well as shifting demographic trends and individuals lifestyle choices, ensure that there will still be sections of the housing market that continue to flourish.

Identifying these opportunities requires an understanding of the prevailing housing market conditions. We trust that the latest issue of The Study provides homeowners and potential buyers with a greater insight into current trends in the local housing market.

SLOWDOWN IN SIGHT

Slow housing market requires greater understanding of trends



The national housing market has remained remarkably resilient in recent years – despite five consecutive years of subdued economic growth, a severe drought and repeated bouts of Rand weakness, which have ignited renewed price pressures and prompted the Reserve Bank to gradually, but repeatedly, raise interest rates.

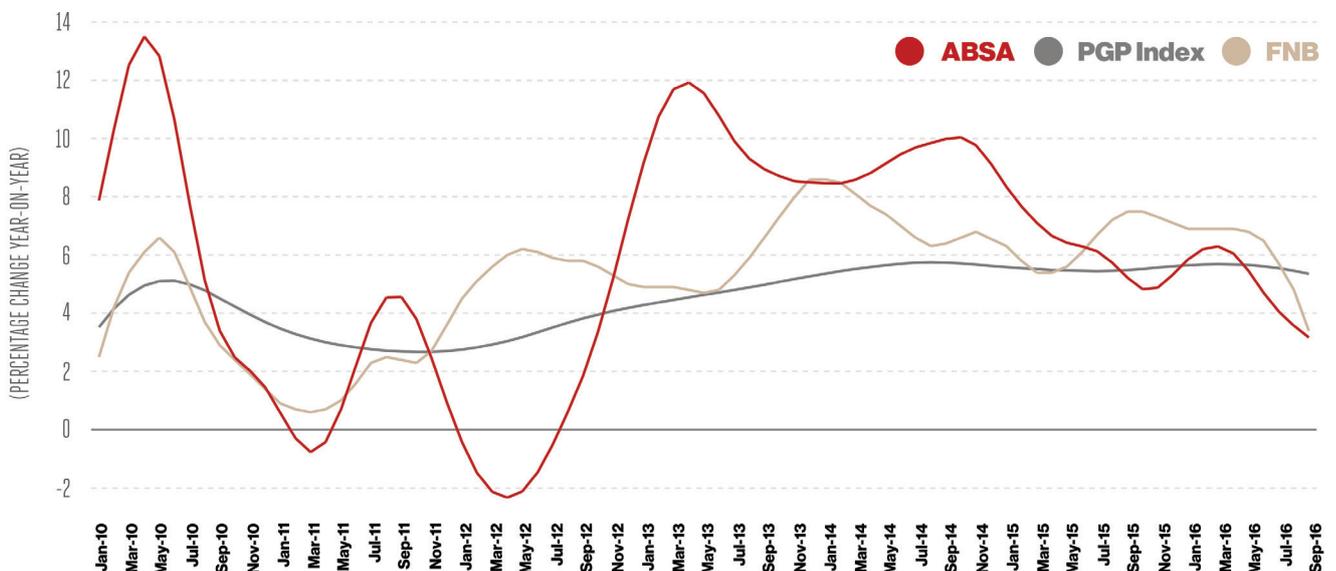
However, signs are now emerging that the national housing market is beginning to lose momentum in the face of these persistent economic headwinds.

After registering an average house price inflation rate of 5.5% last year, the *Pam Golding Residential Property Index* (PGP Index) appears to be slowing. After reaching a high of 5.7% in March this year, the PGP Index has eased slightly to 5.4% in September 2016 – bringing the average house price inflation thus far this year to 5.6%.

The slowdown in the national housing market is also evident in the house price indices of South Africa’s major banks – notably FNB and Absa (see the graph below). These indices tend to be more volatile than the PGP Index but are both clearly indicating a marked downturn in house price inflation.

National house price inflation is slowing

SOURCE: PGP INDEX, FNB & ABSA



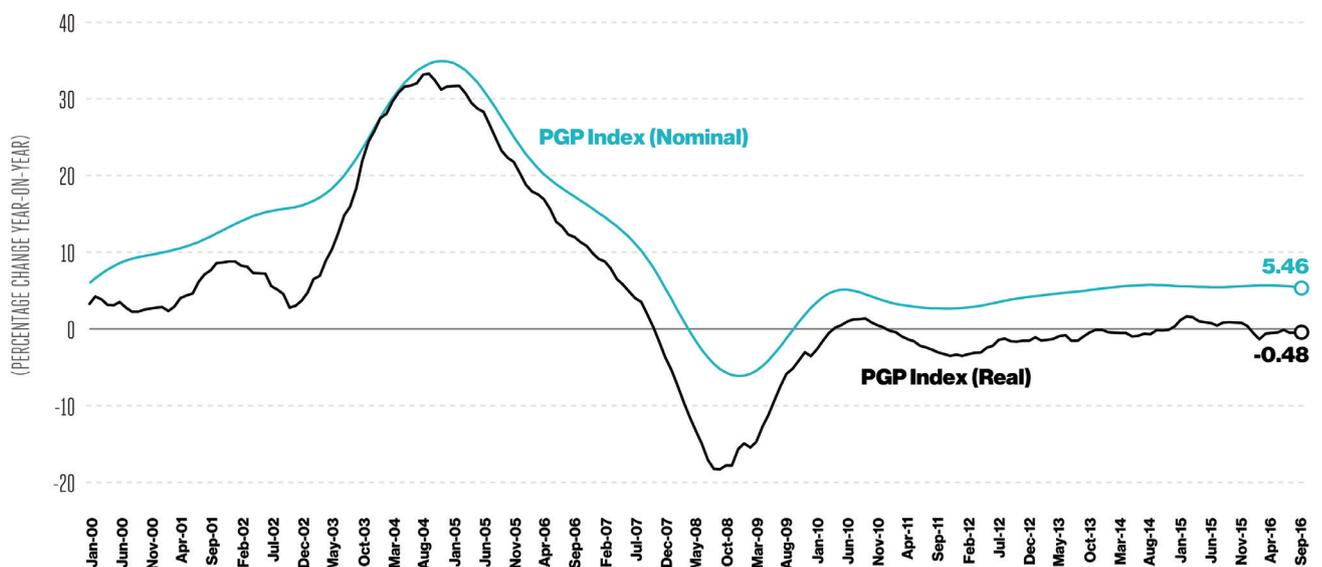
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SEVERAL SECTORS
IN LOCAL HOUSING
MARKET CONTINUE
TO FLOURISH
”

Purchasing a home is a complex decision which is typically driven by a wide arrange of factors including how close buyers wish to be to their place of employment, good schools, family and friends as well as their preferred lifestyle e.g. lock-up-and-go or large family home. Nonetheless, purchasing a home is often the largest single investment decision many households make, so there is a desire to ensure that it is also a sound financial investment.

This is relatively easy to achieve during a housing market boom, when most property sectors experience rising prices. However, when purchasing a property during an economic slowdown, which is typically accompanied by softer housing market conditions, buyers need a good understanding of market dynamics in order to select the suburb, price band and unit type that best suits their needs but which also continues to enjoy healthy growth in prices, despite the prevailing economic climate. This is perhaps best illustrated by looking at real, or inflation-adjusted, house price inflation.

National house price inflation: nominal and real

SOURCE: PGP INDEX & STATS SA



The current slowdown in national house price inflation is occurring at a time when Rand weakness and higher food prices have driven the consumer price index above the Reserve Bank’s 6% upper inflation target limit. This has prompted some analysts to raise concerns about whether purchasing a home in the current economic environment is a sound investment, given that house prices appear to be declining in real, or inflation-adjusted, terms.

The PGP Index has averaged 5.6% during the year to date, while the consumer inflation rate has averaged 6.2% during the same period. This would suggest that, after adjusting for inflation, real South African house prices have fallen by an average of 0.6% compared to the same period last year (as seen in the graph above).

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**LOCATION, NOT
 ECONOMY, A KEY
 DETERMINANT OF
 TIME ON MARKET**
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However, there are still sectors of the housing market which continue to register positive real growth rates. For example, during the year to date, house price inflation in the Western Cape has risen by 10.35%. Adjusting for inflation, this translates into a real increase in house prices of 4.2% during the first nine months of the year.

This example serves to illustrate the fact that, even during an economic downturn, an understanding of the prevailing market trends allow potential buyers to find properties that offer a sound investment opportunity.

The importance of location when selecting a property to purchase was highlighted by recent research released by Lightstone that revealed that the suburb in which a property is located is a more important factor in the length a property takes to sell than the state of the economy (see storybox below).

**SUBURB, NOT ECONOMY; KEY
 DETERMINANT OF TIME TO SELL**



The length of time that a property remains on the market appears to be driven more by the suburb in which it is located than by the prevailing economic environment, according to new research by Lightstone.

While the Western Cape may have experienced the highest overall growth in repeat homeowners due to semi-gration, the suburb experiencing the highest influx of repeat buyers is not in the Cape but in Pretoria, with homes in Garsfontein selling **within 2.8 months of listing**.

In contrast, a property in Parkhurst, Johannesburg **typically stays on the market for 7.4 months**.

The length it takes to sell a property has increased in the past 3 quarters; as a result of softening demand and an easing of supply constraints, the average time a home remains on the market has risen from 11 weeks and a day in the 1st quarter of 2016 to **14 weeks (3.5 months)** in the 3rd quarter, according to the latest research.

SOURCE: LIGHTSTONE & FNB



When attempting to identify sectors of the housing market which continue to flourish, it is useful to look at the market heat map for a quick overview of the performance of house price inflation across the three major regional markets and price bands. The major trends in the national housing market during the past nine months remain unchanged:

- The strongest regional market remains the Western Cape, with average house price inflation of 10.35% during the year to date – nearly double the national average of 5.6%.

- Among the three major price bands, the lower price band (under R1 million) continues to register the strongest growth – with house price inflation averaging 7.42% at a national level.

Average house price inflation, year to date

SOURCE: PGP INDEX

	AVERAGE	< R1M	R1M - R2M	> R2M
SOUTH AFRICA*	5,59	7,42	3,97	1,69
GAUTENG	4,71	6,38	3,14	-1,06
WESTERN CAPE	10,35	14,25	9,46	4,91
KWAZULU-NATAL	6,69	11,21	5,31	5,54

THE CAPE REMAINS KING

While the Western Cape continues to register the strongest regional growth in house prices – it too is beginning to lose momentum. The slowdown in the strongest regional market highlights the fact that persistent economic weakness, elevated inflation and repeated interest rate hikes are increasingly taking a toll on household finances across the country (see storybox below).

SUBDUED ECONOMIC GROWTH WEIGHS ON HOUSEHOLD FINANCES



After a modest rebound in the 2nd quarter, local economic activity is slowing again – placing households under increasing financial strain.

Research by Old Mutual reveals a deteriorating ability of property owners to service their bonds; 67% are paying their minimum monthly bond contribution, **an increase from 54% in 2013.**

Furthermore, just 14% of home owners are contributing in an extra amount each month – **less than half the amount 3 years ago.**

With house price inflation showing signs of slowing, it appears the weak local economy is finally beginning to take its toll on the housing market.

SOURCE: OLD MUTUAL



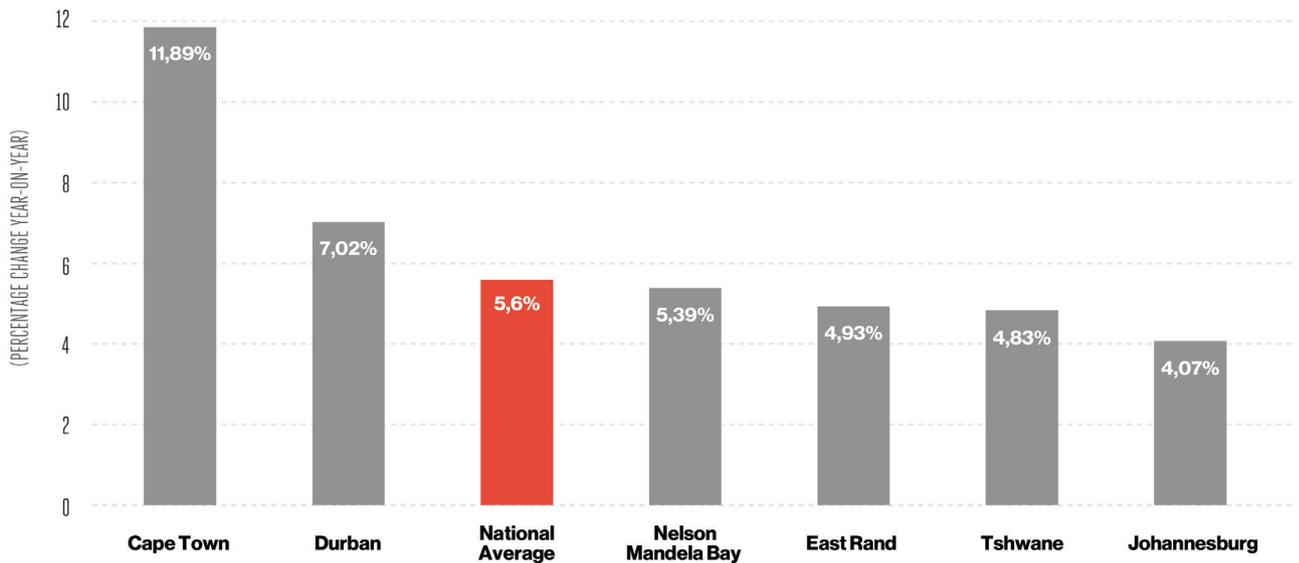
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**CAPE TOWN
 REMAINS TOP
 PERFORMING METRO
 HOUSING MARKET**
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The outperformance of the Western Cape housing market relative to both Gauteng and KwaZulu-Natal began in mid-2013 – which more or less coincides with the start of the semi-gration of repeat home buyers to the Cape, according to research conducted by FNB.

It remains likely that many repeat buyers relocating to the Western Cape are choosing to settle in the greater Cape Town area – which remains the top performing major metro housing market in South Africa. House price inflation in the Cape metro averaged 11.9% during the first half of the year (latest available data) nearly 5% ahead of the second strongest metro housing market of Durban.

Cape Town remains top metro market

SOURCE: LIGHTSTONE



SIGNIFICANT INVESTMENT TO TRANSFORM CAPE TOWN CBD

The City of Cape Town is experiencing an unprecedented surge in property investment, with projects totalling **R16 billion anticipated during the next few years.**

Proposed developments include a new mixed-use skyscraper – the Zero2ONE Tower – on Adderley Street and 3 new Marriott-branded hotels.

One of these hotels will be situated in the mixed-use Yacht Club development while the other two will be located in the Harbour Arch development on the Foreshore. Once completed, the R8 billion Harbour Arch will cover 200 000m² – almost half the size of the vast V&A Waterfront.

SOURCE: BLOG.PAMGOLDING.CO.ZA



However, it appears that repeat buyers relocating to the Western Cape are also settling in other urban areas, predominantly along the coastline. This was highlighted by the recent New World Wealth report, which identified both the Garden Route and the Winelands – notably Stellenbosch, Franschhoek and Paarl – as emerging wealth towns, each with an estimated dollar millionaire population of 2 500. Similarly, the country’s most popular towns along the Garden Route for the ultra-wealthy are George, Knysna, Plettenberg Bay and Wilderness.

MASSIVE INVESTMENT UNDERPINS GAUTENG HOUSING MARKET



Gauteng is home to half of SA's ultra-wealthy population

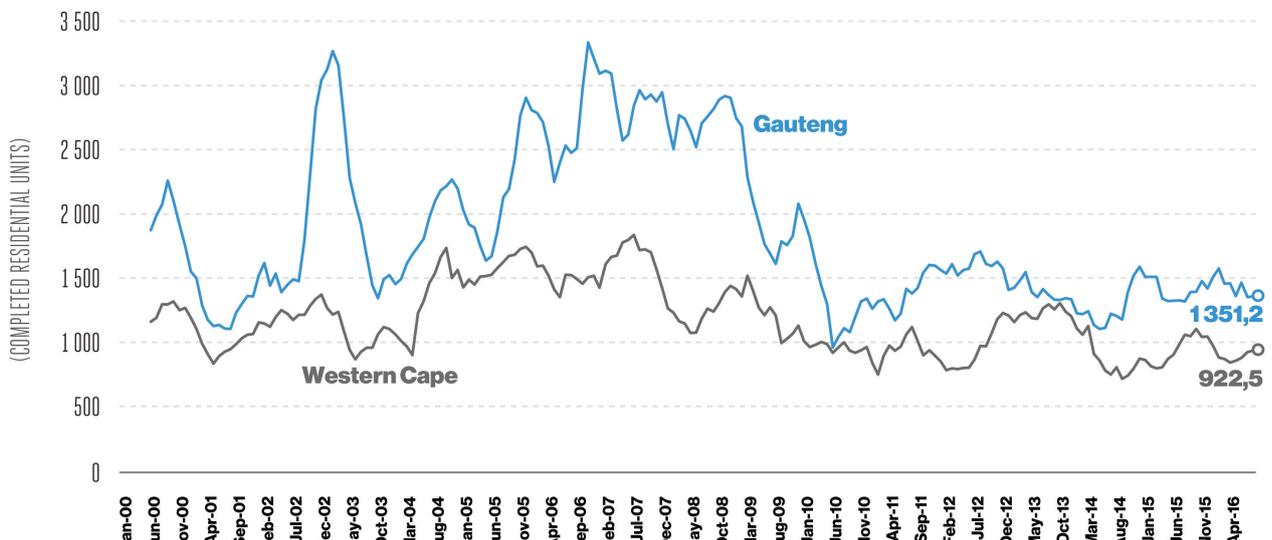
House price inflation in Gauteng has underperformed the national index in recent years, as the subdued economic environment takes its toll on South Africa’s industrial heartland.

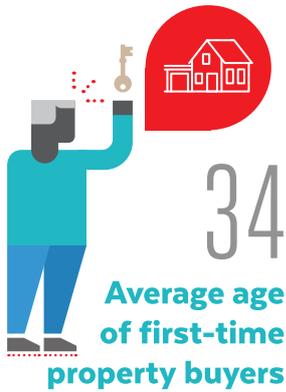
Despite the relative underperformance of the overall Gauteng housing market, Gauteng is still South Africa’s economic power house and remains home to half of the country’s high net worth individuals. According to the recent New World Wealth report, Johannesburg has a high net worth population of 17 600, while Pretoria has a wealthy population of 2 600. As a result, Gauteng is home to exactly half of South Africa’s 40 400 ultra-wealthy individuals (US dollar millionaires).

In addition to being home to the largest ultra-wealthy population, Gauteng also attracts the majority of local first-time buyers – many of whom move to the region in search of economic opportunities at the early stages of their careers.

Gauteng delivers more new housing stock

SOURCE: STATS SA





This provides a solid underpinning for the Gauteng housing market since, even though the tough economic climate is taking its toll on household finances, first time buyers remain a significant presence in the South African housing market. According to ooba, first-time buyers remain the most significant contributor to home loan volumes, accounting for 53% of all ooba’s bond applications in the third quarter.

Given South Africa’s relatively young population profile – with the majority of South Africans still under the average age of the typical first time buyer (34 years according to ooba) – demand from the growing number of first time buyers will continue to provide a positive fundamental underpinning for the South African housing market for the foreseeable future.

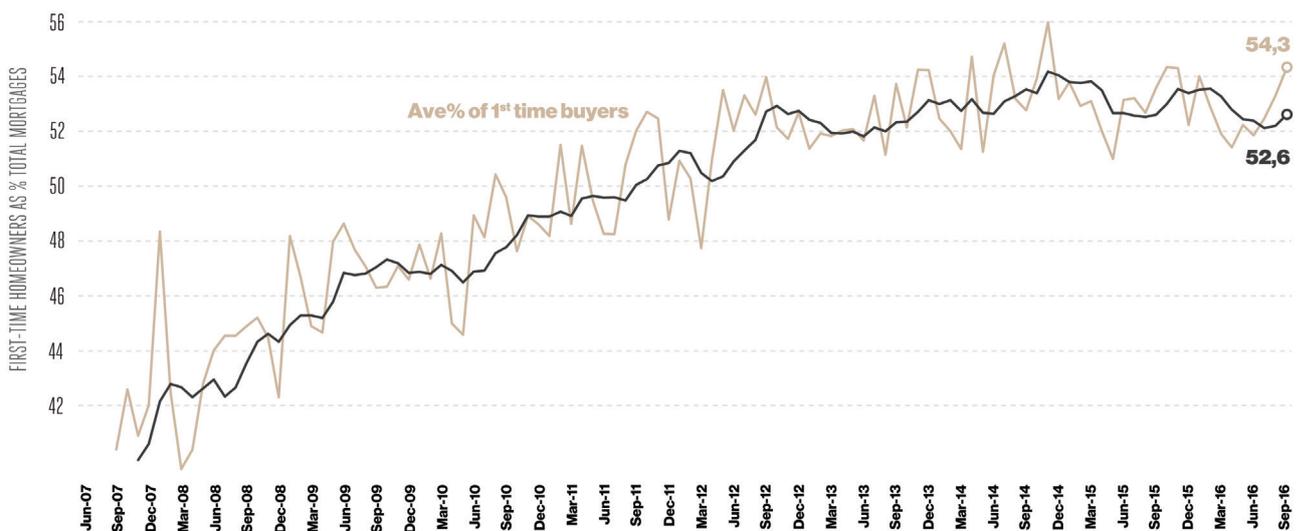


It is this robust demand from first-time buyers which helps to explain the continued strong price performance of the lower price band (<R1 million) housing market in all three major regional markets. This is particularly pronounced in the Western Cape, where a shortage of housing stock undoubtedly contributes to the elevated levels of house price inflation in this sector.

The dominant role of first-time buyers is also providing a key driver in the rapid transformation of South Africa’s housing market. During the third quarter of 2016, 61% of all ooba’s applications were from Black home buyers, while among first-time buyers this rose to 73% of all applications received by the bond originator.

First time buyers remain significant

SOURCE: Ooba

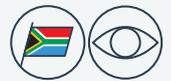


One possible explanation for Gauteng’s relative price underperformance is the fact that the region is better able to cater to the growing demand for new housing (see graph above).

Unlike Cape Town – where the geographic limits created by the coastline and mountains hamper the creation of new housing stock, creating a persistent shortage of stock in prime areas – Gauteng is able to expand outwards in order to meet housing demand.

There are currently several major infrastructural, commercial and residential developments in numerous growth nodes such as Fourways, Midrand and Menlyn in Pretoria East.

ROSEBANK EMERGES AS JOHANNESBURG'S MOST DESIRABLE MIXED-USE HUB



Rosebank is emerging as Johannesburg's most desirable mixed-use hub. New luxury apartments and premium-grade office space are attracting prices typically reserved for Sandton and Melrose Arch.

Rosebank's leafy, pedestrianised environment and confined road network mean it can easily

accommodate a mix of office, retail and residential developments - all within easy walking distance.

Developers believe Rosebank has the opportunity to become a true 24-hour live, work and play precinct, unlike Sandton which failed to construct sufficient residential stock.

SOURCE: FINANCIAL MAIL



GAUTRAIN EXTENSION TO SPARK NEW GROWTH NODES

One major infrastructural investment which is likely to have a significant impact on the housing market in several Gauteng suburbs in the year ahead is the planned extension of the Gautrain.

The Sandton and Rosebank Gautrain stations have very clearly boosted the development impetus in these suburbs. Companies are often willing to pay a premium for premises near a Gautrain station, while residents are attracted by the transport alternative the service offers to Gauteng's congested highways.

The Gautrain Management Agency is planning to extend the rail route by 150 kilometers – and the Gautrain could soon travel to Soweto, Mamelodi and the West of Johannesburg. It is anticipated that the extension to the west of Johannesburg will have a similar impact on the local property market was experienced in Sandton and Rosebank, with big corporates opting to relocate there.

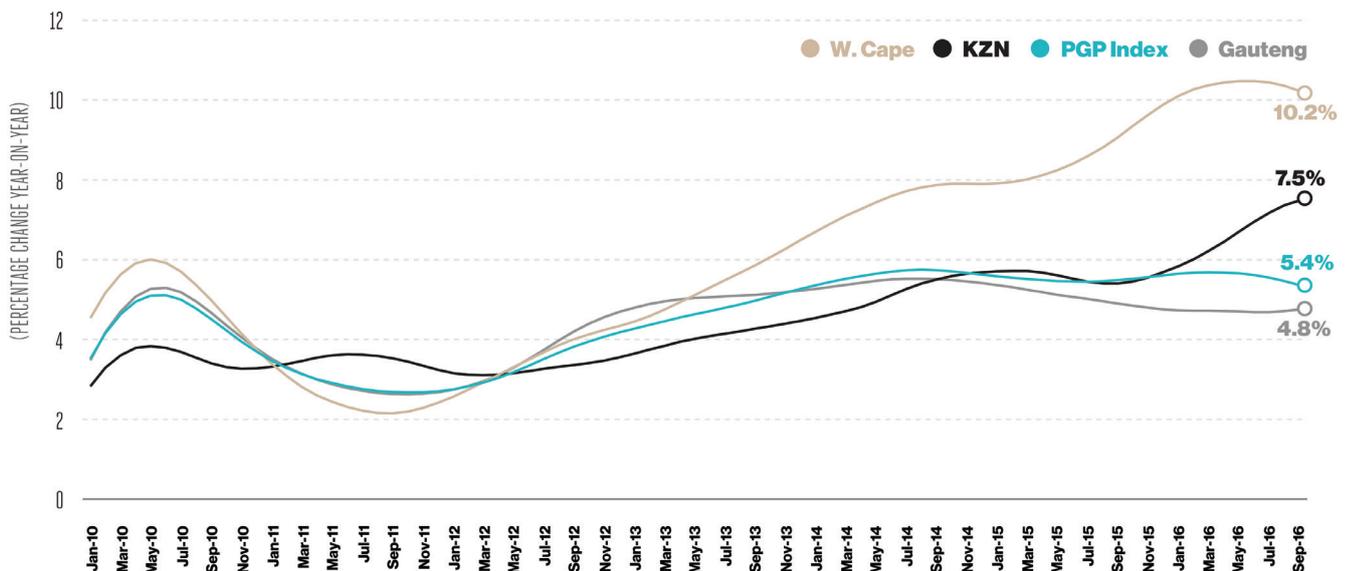
Construction on the new lines could start in five years' time. In the meantime, it is estimated that 45 new train coaches are needed to keep up with growing passenger demand.

ROBUST ACTIVITY ON KZN NORTH COAST PROMPTS HOUSING REBOUND

In contrast to the cooling house price inflation in both the Western Cape and Gauteng, KwaZulu-Natal (KZN) is experiencing a modest rebound – with growth in prices rallying from 5.4% in late-2015 to a level of 7.5% in September 2016. There is no sign as yet that the rebound in prices is losing momentum.

KZN experiences modest house price inflation rebound

SOURCE: PGP INDEX



Within the KZN market, house price inflation within the lower price band is accelerating strongly – rising by 14.8% from year-earlier levels in September and averaging 11.2% during the year to date. While house price inflation in the upper price band (>R2m) in KZN is slowing, it remains more resilient than in both the Western Cape and Gauteng.

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**MAJOR INVESTMENTS
 BEHIND SOARING
 NORTH COAST
 HOUSING MARKET**
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Housing demand appears to be particularly buoyant along the KZN coastline, with buyers showing a strong preference for properties within secure estates. There is significant demand in Umhlanga – with numerous new estates and beachfront complexes proving to be extremely popular.

Further north towards Umdloti, the new Sibaya precinct is the current hotspot in the KZN housing market. Sibaya will be a controlled precinct with security, retail and office components and prime residential nodes located above the forest and sea. The development is attracting interest from local buyers, notably from Johannesburg and KwaZulu-Natal along with some foreign interest.

Further fuelling interest from property investors on the north coast is the increase in economic activity at the Dube TradePort which, together with King Shaka International Airport, forms part of the regional aerotropolis (see storybox below).

60%

The increase in total international arrivals to King Shaka Airport since 2010

International travel was significantly bolstered last year by the addition to Durban’s network of four new international airlines, in addition to the daily Emirates flights and regional services to Zimbabwe, Mozambique and Mauritius. Official statistics show that total international arrivals have risen by 60% since King Shaka opened in 2010 due to direct international flights – with a new record in international arrivals registered in January 2016, representing an 85% hike from January 2010.

International flights open and reinforce global and regional trade links by moving passengers and cargo. Local officials believe that this increased global connectivity will drive the region’s aerotropolis and associated regional economic growth.

AEROTROPOLIS: KWAZULU-NATAL



An aerotropolis is a metro area where the layout, infrastructure and local economy are centred around an airport which serves as the commercial core. Aerotropolis: KZN – the heart of which is Dube TradePort and King Shaka International Airport – is set to become a major trade and business hub in sub-Saharan Africa. By creating a highly competitive business operating environment,

complete with state-of-the-art infrastructure – road, rail, seaport and IT – it is designed to accelerate business efficiencies and enhance global supply chain.

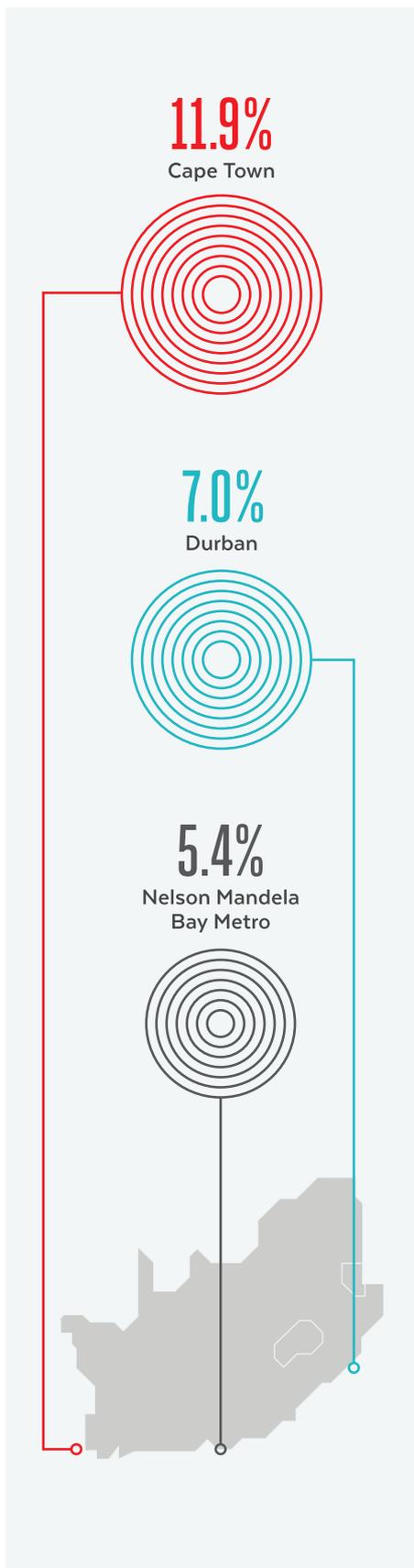
The development aims to become South Africa’s new gateway to Southern Africa.

SOURCE: AEROTROPOLISKZN.COM



To extend the transport network with the TradePort, local authorities are planning a rapid rail system which will connect King Shaka with Durban, Pietermaritzburg and Richards Bay.

The increase in economic activity – and hence the improved employment opportunities – generated by developments at King Shaka and Dube TradePort is undoubtedly contributing to the revival in the property market in the region.



EASTERN CAPE RALLIES AS BUYERS RELOCATE TO SA'S COASTLINE

The Eastern Cape housing market has lagged behind the other major regional markets in recent years. However, much like KZN, house price inflation in the province is currently gaining momentum as massive infrastructural and property investments in the region bolster activity in the local housing market.

At a regional level, house price inflation in the Eastern Cape has risen from a low of 4.1% in early-2016 to a level of 5.2% in June 2016 (latest available data). As a result, house price inflation has averaged 4.5% during the first half of the year – slightly below the national average.

Nelson Mandela Bay has registered average house price inflation of 5.4% during the first half of the year, making it the third highest performing metro area in South Africa – after Cape Town (at 11.9%) and Durban (7.0%). During the past five years, freehold properties have risen by an average of 22.1% in Port Elizabeth and 29.2% in East London, according to latest data from Lightstone.

A variety of major infrastructural and property developments are currently underway in the Eastern Cape. These include the recent announcement by the Department of Energy (DoE) that the Coega Industrial Development Zone (IDZ) would be one of the locations for a R25 billion gas-to-power programme, along with the record-breaking R11 billion investment by the Beijing Automobile International Corporation (BAIC) in a vehicle manufacturing plant and the ongoing development in the Bay West area.

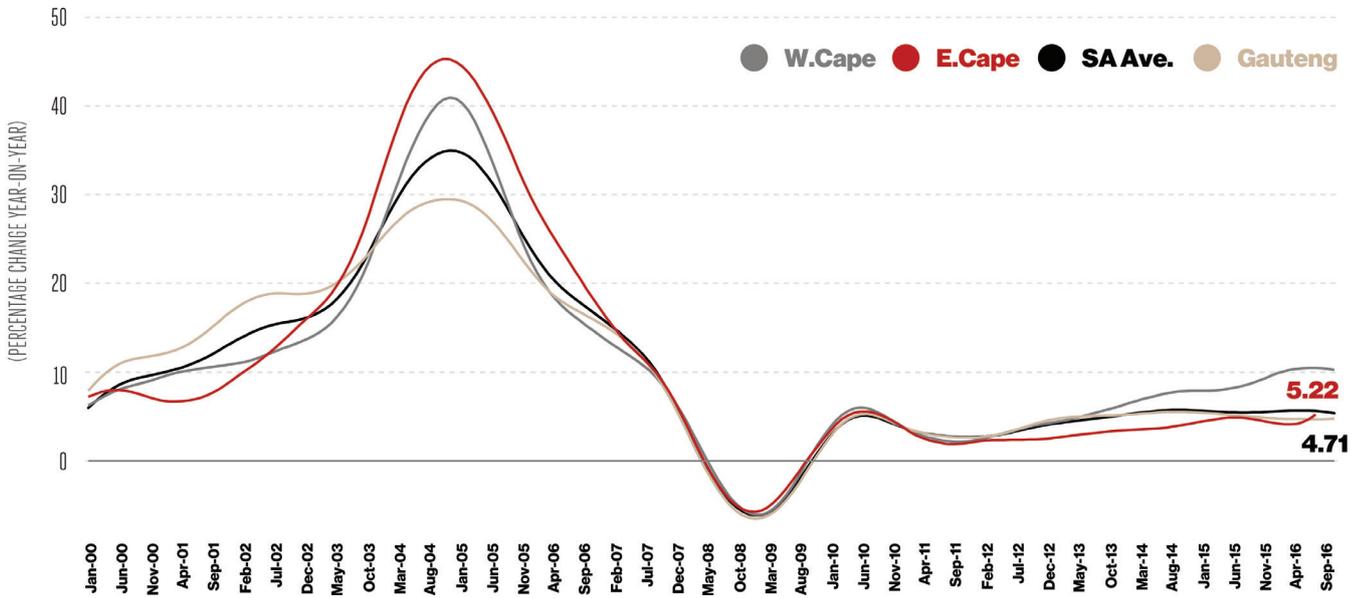
These investments, along with several other property developments in the region, are likely to significantly bolster economic activity and employment creation in the province.

The positive impact of a major investment boom on the regional housing market was last seen just over a decade ago, when the Coega IDZ was initially launched. The boom in the regional and metro housing markets in the province was undoubtedly fuelled in part by the surge in investment and economic activity in the IDZ.

Between 2000 and 2007, the Nelson Mandela Bay metro was the top performing metro housing market while the Eastern Cape housing market managed to record the strongest growth in regional house price inflation (see chart on the following page).

Eastern Cape outperformed during boom

SOURCE: PGP INDEX & LIGHTSTONE



“ PORT ELIZABETH BENEFITS FROM RELOCATION TO SA'S COASTLINE ”

The massive new wave of economic investment, coupled with a new local government, suggests that the Eastern Cape housing market will experience a renewed bout of growth in the months ahead.

As one of the least congested cities in the country and with an offering of its own version of the high quality lifestyles found in other coastal destinations, Port Elizabeth is increasingly well positioned to attract wealthy buyers from across South Africa.

Potential buyers are likely to be attracted by the opportunity to participate in the region’s economic revival and to take advantage of its relatively affordable real estate, international airport and coastal lifestyle. Local agents are already experiencing increased interest in prime properties (above R3 million) as many professionals relocate to the region from other provinces.



Sandra Gordon
Pam Golding Properties Research

Pam Golding Properties Research aims to provide insightful market commentary and analysis, based on a comprehensive understanding of current market dynamics and trends. By providing relevant market intelligence, this enables investors and homeowners alike to make informed property decisions.

Initiated and developed by PGP Research, in association with market analysts, Lightstone, the Pam Golding Property Index presents an accurate, holistic snapshot of property pricing in the South African residential real estate market, highlighting market movement and property value trends on a monthly basis. The Index is based on the globally respected 'repeat sales' methodology, incorporating residential property transactions registered at the Deeds Office as well as other data sources across the country's residential property market, including Pam Golding Properties' extensive sales data.

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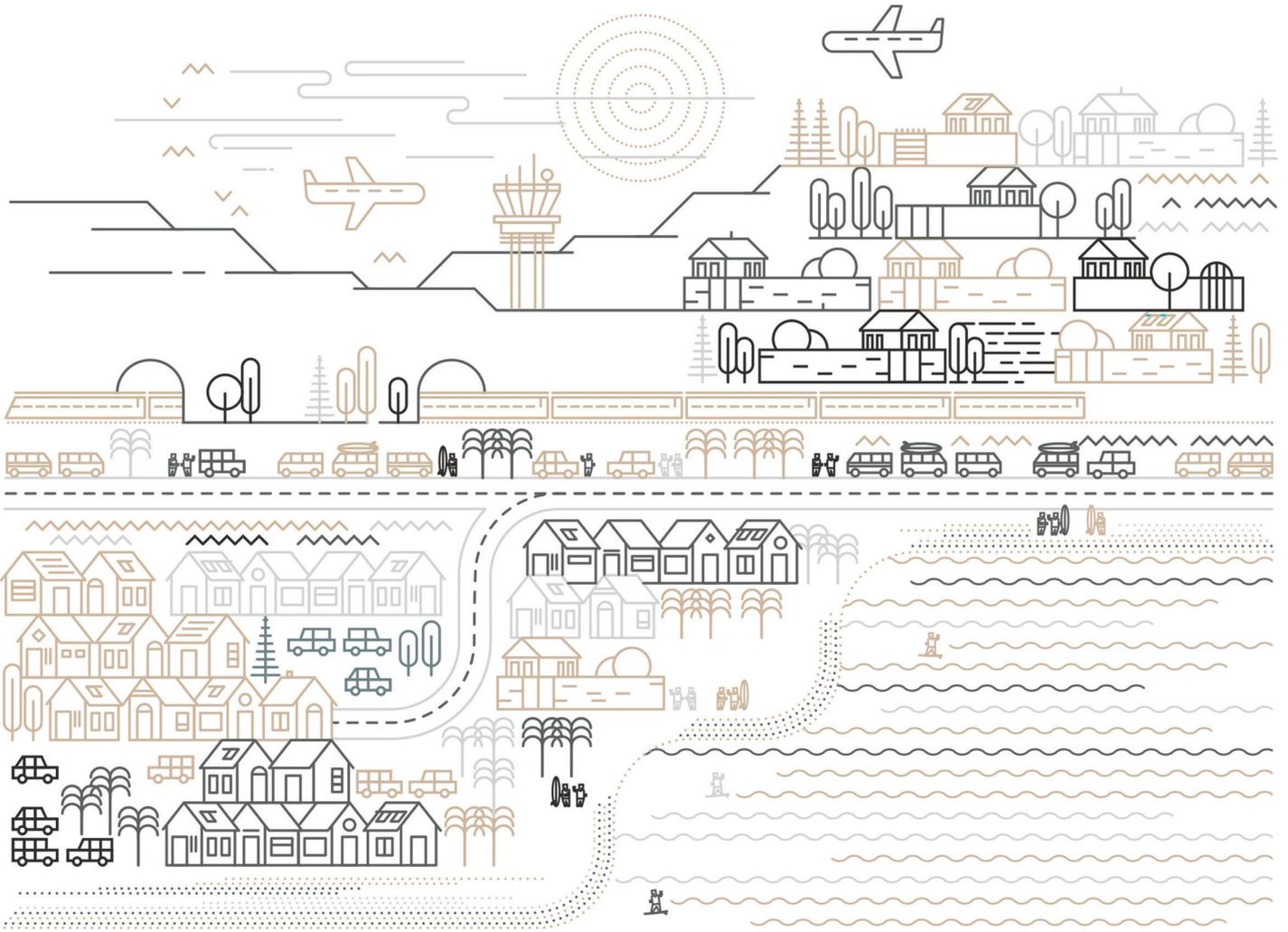
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