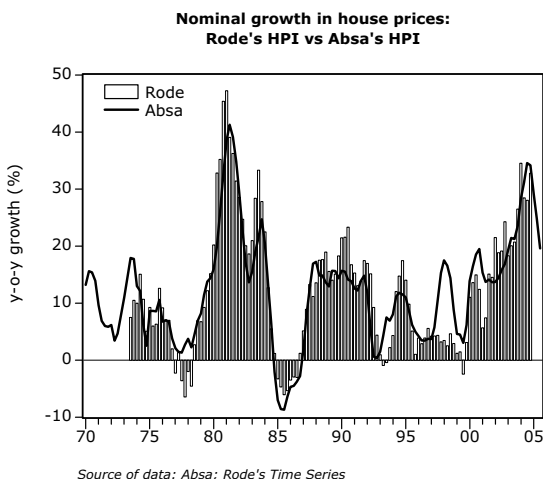
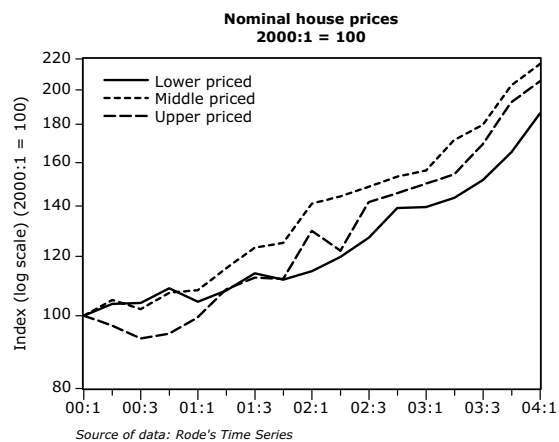
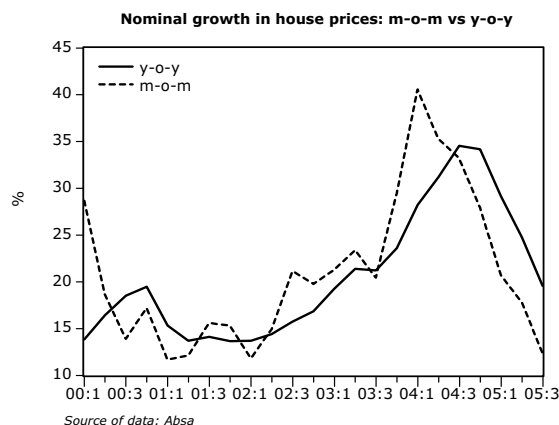


Chapter 15: House market

Why Cape Peninsula house prices are losing out

House prices during the third quarter of 2005 were still almost 20% higher than they were a year earlier. However, growth continued to lose steam as evidenced by the fact that house prices during the reporting quarter were only 3% higher than the previous quarter — that is to say, annualised quarter-on-quarter house-price growth was a contrasting 12,4%. This deceleration is likely to continue on the back of increased unaffordability coupled with, we believe, a limited ability by consumers to significantly alter their spending patterns. In other words, real house-price growth is currently demand constrained.

Moving on to the various price categories, Rode's figures show that during the first quarter of 2005, the prices of lower-priced houses were still growing faster than those of middle-priced and upper-priced houses. A R100 invested in a lower-, middle-, and upper-priced house at the beginning of 2000 would have grown to R186, R217, and R205, respectively, by quarter 2005:1. Hence lower-priced houses still have some catching up to do. Whether they will in fact, is a different matter.



The regional picture

Table 15.1 summarises the most recent house-price growth data, which the reader can compare with building costs (as per the Haylett index and the BER BCI) and consumer inflation (CPIX). Also of interest, although not included in **Table 15.1**, is the fact that national house-price growth in October 2005 was 15,9% up on the same month a year earlier; this, although not shabby, should be seen in the context of the annualised month-on-month growth rate which was a sobering 7%.

Table 15.1
Nominal house price growth by city & class
 % change on a year earlier

City	Rode*				Absa	
	2005:1				2005:2	2005:3
	Lower	Middle	Upper	Total	Total	Total
Johannesburg	32,2	42,7	38,6	38,8	20,7	17,9
Pretoria	37,9	43,1	25,6	35,2	25,2	18,7
Durban	56,2	51,5	37,8	46,8	18,8	17,7
Cape Town	50,1	35,3	35,8	39,1	25,6	25,3
Port Elizabeth	56,0	43,5	34,6	43,5	33,9	23,2
National	42,9	41,7	33,5	38,5	24,8	19,6
Haylett index				7,4	6,6	6,9
Absa Home BCI				14,8	14,3	12,8
CPIX				3,5	4,0	4,8

Source: Rode's House Price Index; Stats SA; JBCC CPAP Haylett formula

* Note that the figures for quarter 2005:1 are provisional

Rode's HPI vs Absa's HPI

Rode's HPI is compiled by tracking median sales prices of houses in a representative sample of suburbs, using Deeds Office information. By using the median sales price, our methodology should — assuming a large enough number of sales — place no weight on outlier transactions. Our methodology has the added advantage that we divide suburbs into price categories (in contrast to Absa's size categories). Our price categories are:

- Lower-priced suburbs (not low-cost housing): up to R700.000
- Middle-priced suburbs: R700.000 — R1.200.000
- Upper-priced suburbs: R1.200.000 upwards

The sales prices are recorded as at the sales date — in contrast to the transfer date.

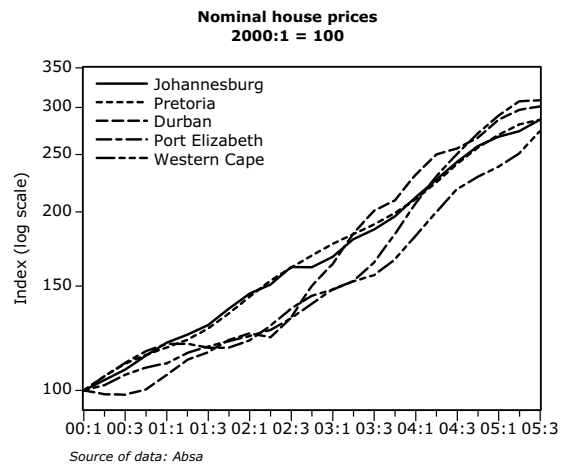
Absa's HPI is calculated by tracking the average sales price of houses for which they have received finance applications. The bank segmentises these houses according to size as follows:

- Small houses: 80m² to 140m²
- Medium houses: 141m² to 220m²
- Large houses: 221m² to 400m²

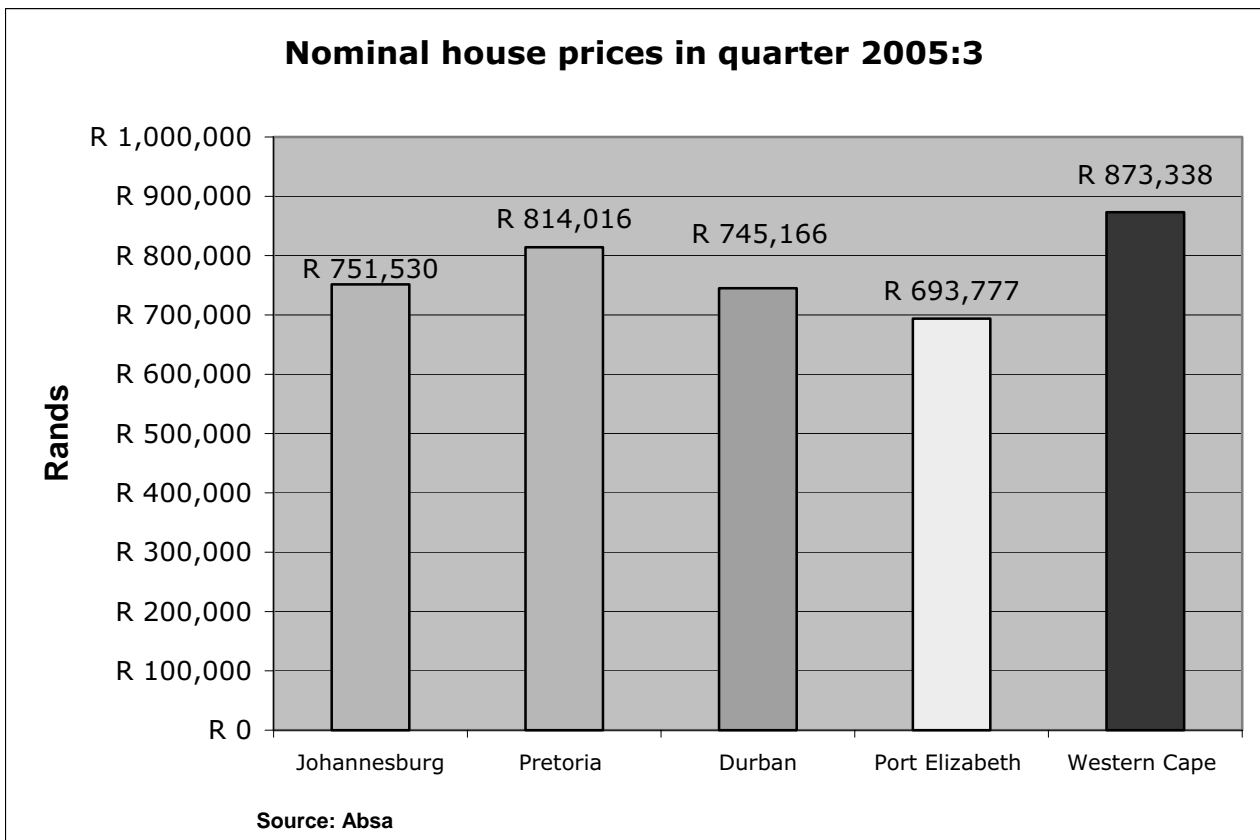
Having a huge share of the home-loan market, Absa's index has the advantage of including much more sales information than Rode's. Because they do not have to rely on the Deeds Office for their information, their indices are generally two quarters more recent than ours.

The accompanying graph shows that a R100 investment in 2000:1 in a Johannesburg or Pretoria house would be worth approximately R285 today — that is, 185% capital growth in just under 6 years. In Durban and Port Elizabeth, it would be R300 and R310, respectively, whereas the Cape Peninsula showed the lowest terminal value at R275. This divergence in growth can be traced back to the fact that the Cape Peninsula economy, due to its greater diversity, was better able to weather the effects of a structurally weaker manufacturing sector and a declining gold price during the 1980s and 1990s, and hence experienced better house-price growth than the other big metros during this period. Since then, the Gauteng economy has been doing relatively better on the back of rising hard-commodity prices and a renaissance in manufacturing production. This latter sector also benefits areas like Durban and Port Elizabeth. Thus, many areas outside the Cape Peninsula are playing catch up — and this is also reflected in their

house prices.



The reader is reminded not to confuse the *growth* in house prices with the *levels* of house prices. The accompanying graph shows that the Cape Peninsula is still safely in first place with an average house price of about R873.338, while Port Elizabeth still has the lowest average house price at R693.777.



Residential income yields

Tables 15.2 and **15.3** summarize the gross-income yields on houses and town-houses. These yields, just like the capitalization rates of non-residential property, contain important information regarding the buy-to-let house market.

Again we see that yields are higher in economically depressed areas. The reason for this is twofold: firstly, the expected rental growth and, by implication, capital growth, for these areas is lower; secondly, the risk in these areas is greater.

This concludes our section on the house market. ■

Note that this issue of *Rode's Report* only covers Rode-index prices up to quarter 2005:1. The reason for this is that sale-price data (extracted from the official records of the Deeds Registries) can take anything from 3 to 18 months before it is registered in the Deeds Office. Also note that Rode's House Price Index records data according to the date of sale and not the date of transfer; this is more accurate.

Note that these are gross-income yields. To convert to net-income yields, the reader may – as a rule of thumb – deduct two percentage points. This net figure can then be compared with the capitalization rates of non-residential properties, or the income yield of any other asset class for that matter.

These yields can be used as a rough guide to the state of the respective local economies: the higher the yield, the worst the economic performance (investors require a higher initial yield to compensate for an expected poorer income growth in the future).

*Most of the graphs in this chapter make use of indexed data, which measures the performance relative to the base year. For instance, if the base year is 1990, all prices are given the value of 100 in 1990. For interpretation purposes it is, therefore, important to remember that **an index does not reflect true levels**. It gives an idea of the variable's level as compared to that of the base year (the growth since 1990, in this case). Hence, interpretation should focus on trends and not actual values.*

Table 15.2
Gross-income yields (%): Houses
Quarter 2005:3

	Low	Middle	High
Gauteng			
Centurion	N/A	N/A	N/A
East Rand	N/A	N/A	N/A
Heidelberg	N/A	N/A	N/A
Eastern Cape			
Port Elizabeth	7,9%	7,5%	4,8%
King William's Town	10,6%	9,3%	7,2%
Free State			
Odendaalsrus	10,3%	8,0%	5,5%
KwaZulu-Natal			
Durban	N/A	N/A	N/A
Newcastle	8,8%	8,7%	8,8%
Limpopo			
Polokwane	N/A	N/A	N/A
Bela-Bela	N/A	N/A	N/A
Nylstroom	N/A	N/A	N/A
Mpumalanga			
Nelspruit	8,8%	8,5%	7,3%
Witbank	N/A	N/A	N/A
Standerton	3,9%	4,9%	4,3%
North West			
KOS*	N/A	N/A	N/A
Potchefstroom	5,9%	5,8%	4,0%
Northern Cape			
Kimberley	8,4%	9,5%	9,0%
Colesberg	N/A	N/A	N/A
Upington	7,2%	6,7%	4,5%
Western Cape			
Cape Town (City Bowl)	5,5%	5,6%	4,8%
Cape Town (Helderberg)	4,9%	5,2%	6,0%
George	N/A	N/A	N/A

* Klerksdorp, Orkney, Stilfontein

Table 15.3
Gross-income yields (%): Townhouses
Quarter 2005:3

	Standard	High-priced
Gauteng		
Centurion	N/A	N/A
East Rand	N/A	N/A
Heidelberg	N/A	N/A
West Rand	8,9%	N/A
Eastern Cape		
Port Elizabeth	N/A	N/A
East London	7,1%	N/A
King William's Town	10,0%	10,1%
Free State		
Bloemfontein	N/A	N/A
KwaZulu-Natal		
Newcastle	9,7%	8,9%
Limpopo		
Polokwane	N/A	N/A
Bela-Bela	N/A	N/A
Mpumalanga		
Nelspruit	9,3%	9,6%
Witbank	N/A	N/A
Ermelo	N/A	N/A
Standerton	7,2%	8,1%
North West		
KOS*	N/A	N/A
Potchefstroom	7,8%	7,3%
Northern Cape		
Kimberley	10,0%	7,7%
Upington	6,9%	4,5%
Colesberg	N/A	N/A
Western Cape		
Cape Town (Helderberg)	4,8%	5,9%
George	N/A	N/A

* Klerksdorp, Orkney, Stilfontein