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MARKET ANALYTICS AND
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PROPERTY BAROMETER

FNB City of Cape Town House Price Indices

The highest priced markets around the mountain have led the slowing house price growth, but the slowdown has broadened out to more affordable regions of late too.

Our 2nd quarter 2018 City of Cape Town Sub-Regional House Price Indices continued to show the high end markets around the mountain to be slowing. However, the slowdown has broadened, and an increasing number of regions (9 out of 12) saw price growth slowing in the 2nd quarter.

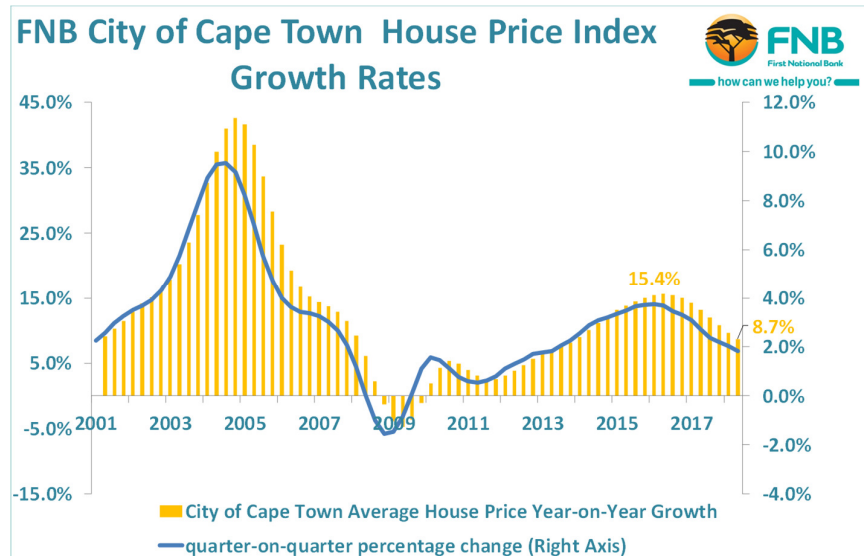
Despite good recent rains and signs of drought alleviation in the region, which is good for its economy and sentiment, we remain of the belief that poor levels of home affordability in the region, after strong house price growth in recent years, will cause house price growth to continue to slow in the near term, with household incomes in the region being required to catch up with house prices before we can see another strong house price growth period.

THE OVERALL CITY PICTURE

Using Deeds Office Data, we compile a set of house price indices for key sub-regions within the City of Cape Town Metro using a repeat sales methodology.

We have then rolled up this set of sub-regions into an overall City of Cape Town Metro House Price Index. In the 2nd quarter of 2018, the City of Cape Town's estimated average house price growth rate continued to slow, recording 8.7% year-on-year.

This year-on-year price growth rate represents the 8th consecutive quarter of slowing from a 10-year revised high of 15.4% recorded in the 2nd quarter of 2016.

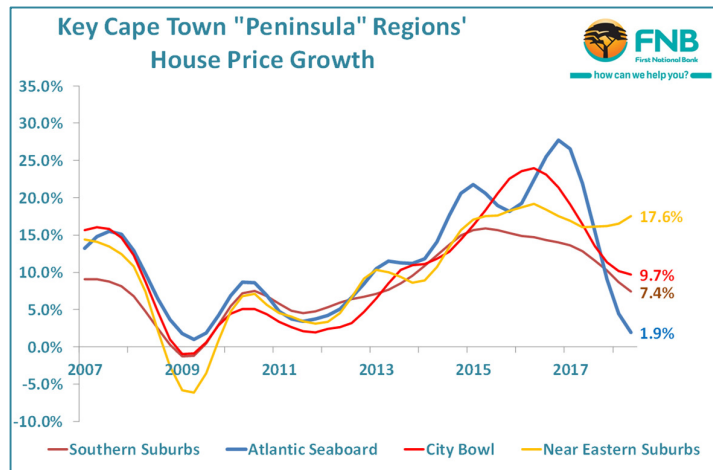


CAPE TOWN SUB-REGION HOUSE PRICE TRENDS

2ND QUARTER 2018 KEY CAPE TOWN SUB-REGIONAL HOUSE PRICE GROWTH RATES

In our 1st quarter release, we noted that year-on-year house price growth had slowed in 8 out of 12 of our defined Cape Town sub-regions. This broadened slightly to 9 out of 12 sub-regions seeing slowing house price growth in the 2nd quarter.

IN AND AROUND THE CAPE PENINSULA, THE MOST “AFFORDABLE” OPTION IN CLOSE PROXIMITY, THE NEAR EASTERN SUBURBS REGION, APPEARS TO HAVE HELD UP BEST.



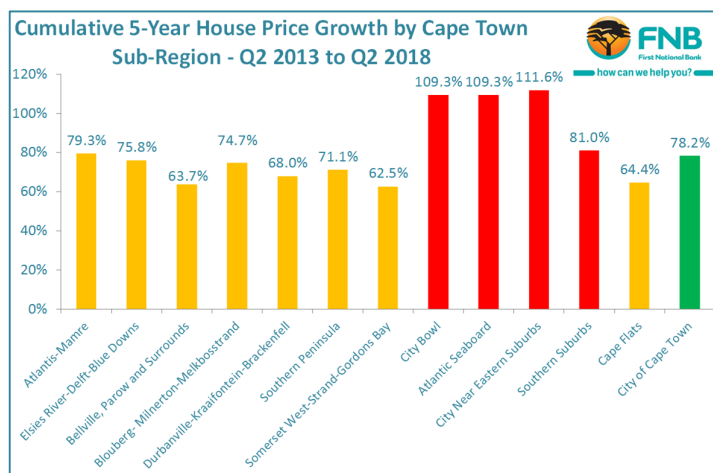
In the 2nd quarter of 2018, we saw further slowing in house price growth in the City Bowl and 2 of the 3 major sub-regions closest to the City Bowl, i.e. in and around the Cape Peninsula.

These sub-regions near to the city and the mountain have shown some of the strongest house price inflation of all of the Cape Town sub-regions over the past 5 years, and this prior deterioration in home affordability appears to have led to slowing demand, and thus price growth, in recent quarters.

The most expensive sub-region in the City of Cape Town Metro, i.e. the Atlantic Seaboard, has seen its average house price growth slow the most sharply off the highest base, from a revised multi-year high of 27.7% year-on-year in the final quarter of 2016 to 1.9% by the 2nd quarter of 2018, and now has the slowest price growth of all of our City of Cape Town regions.

This remains as we had expected, as this sub-region had until recently experienced the most rapid growth of all the sub-regions.

The City Bowl started its price growth slowdown a little earlier than the Atlantic Seaboard, and has gone from its revised multi-year year-on-year growth high of 23.9% in the 2nd quarter of 2016 to 9.7% by the 2nd quarter of 2018.



The Southern Suburbs, the other one of the “most expensive 3” sub-regions, saw further slowdown from 8.6% in the prior quarter to 7.4% in the 2nd quarter of 2018, having gradually slowed from a multi-year high of 15.9% in the 2nd quarter of 2015.

The “Near Eastern Suburbs” sub-region, however, continues to “defy gravity” for the time being at least, it would appear. In 2016, this region’s price growth had also begun to slow. However, more recently it appeared to see a slight resumption of growth acceleration, from 16% year-on-year in the 2nd quarter of 2017 to 17.6% in the 2nd quarter of 2018.

What can still be driving this region where others nearby have slowed more significantly? Proximity close to the City Bowl, a key place of employment, is still a priority for many households as traffic congestion in Cape Town gets steadily worse. The Near Eastern Suburbs including amongst others Woodstock, Salt River and Pinelands is one of the closest to the city centre, and on top of this it the most affordable sub-region of those adjacent to the City Bowl.

Especially Woodstock has been known for some meaningful property upgrades and developments, which can contribute to good price growth. And after major affordability deteriorations in City Bowl and Atlantic Seaboard homes, the Near eastern Suburbs’ attractiveness for property investors may have increased significantly.

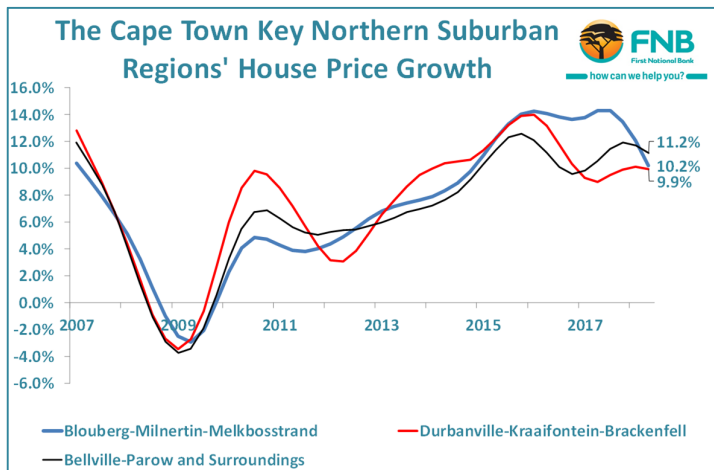
However, while this region’s price growth has held up better than the other 3 sub-regions in close proximity, we believe that this is a mere lag, and that ultimately the more affordable sub-regions begin to follow the slowing price growth trend with a lag, as is beginning to happen out in the more affordable norther regions.

THE TREND OF SLOWING GROWTH HAS BROADENED OUT TO THE MORE AFFORDABLE SUBURBAN MARKETS IN THE NORTH TOO.

Further away from Table Mountain, in Cape Town’s more affordable suburban areas, we had seen house price growth holding up relatively well, and even accelerating somewhat back in 2017. We believe that this relatively solid price growth performance had much to do with the prime regions in and around the Peninsula having become far less affordable after massive price growth in the past 5 years or so.

It forced a portion of demand perhaps to look out north for more affordable housing opportunities as affordability nearer to the mountain deteriorated.

However, this has resulted in a significant home affordability deterioration in the Northern Suburbs too, and more recently we have begun to see price growth slowing in all 3 major Northern Suburbs sub-regions.

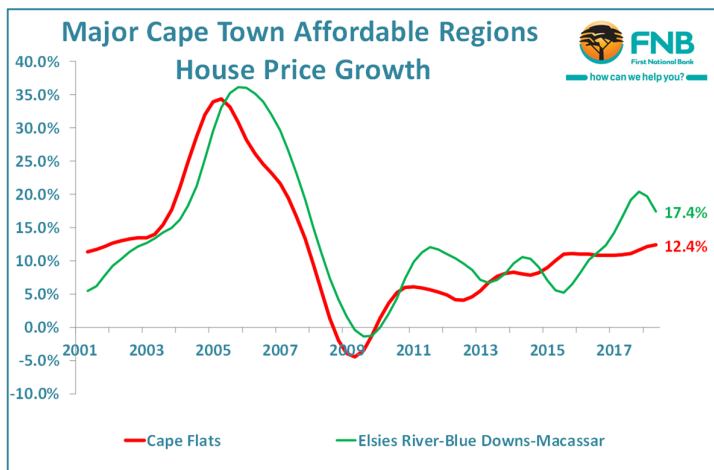


2 out of 3 major Northern Suburbs sub-regions still saw double-digit average house price growth rates in the 2nd quarter of 2018, with 1 out of the 3 moving into single-digits.

The Western Seaboard Sub-Region (including Blouberg, Milnerton and Melkbosstrand) saw a slowing in year-on-year price growth, from 14.3% in the 3rd quarter of 2017 to 10.2% by the 2nd quarter of 2018. This is the most noticeable slowing in price growth off the highest base of the 3 northern sub-regions.

The “Bellville-Parow and Surroundings” sub-region also saw its price growth slow, from 11.9% year-on-year in the final quarter of 2017 to 11.2% in the 2nd quarter of 2018, after prior quarters of strengthening.

The Durbanville-Kraaifontein-Brackenfell sub-region also started to slow slightly, from 10.1% growth in the 1st quarter of 2018 to 9.9% in the 2nd quarter.



Moving into even more affordable regions, ones which incorporate many of the city’s Apartheid Era former so-called “Coloured” and “Black” Areas, where we had recently seen significant price growth accelerations, of late we have also started to see a slowing in the rate of growth of the Elsies River-Blue Downs-Macassar Region. From a high of 20.4% year-on-year in the final quarter of 2017, this region’s growth slowed to 17.4% in the 2nd quarter of 2018.

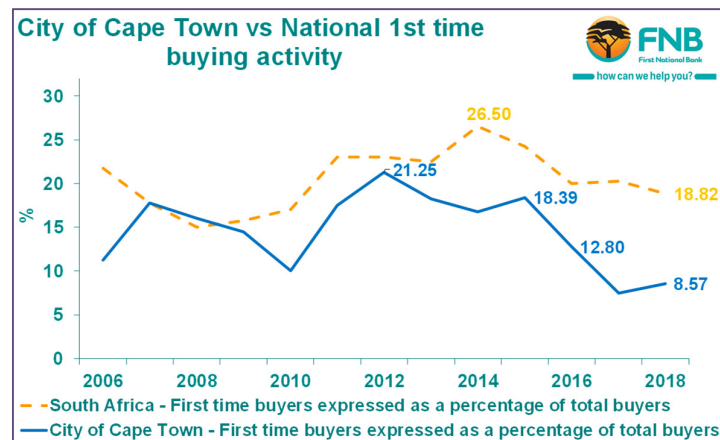
CONCLUSION

In short, the City of Cape Town's overall housing market continues to "cool" and in the process we saw the 8th consecutive quarter of year-on-year house price growth slowdown in the metro.

As the market slowdown takes place, we see a broadening in slowing growth to an increasing number of sub-regions (9 out of 12 sub-regions having experienced slowing year-on-year house price growth in the 2nd quarter of 2018), now including some of the more affordable ones which had "defied gravity" for a little longer than the high end regions close to the mountain.

We believe that the recent drought may have had some cooling impact on the Cape Town housing market, via its negative impact on the Western Cape economy, as well as on sentiment within and towards the region. However, the good recent rains, which will alleviate the region's water shortage somewhat, we do not believe will reverse this house price growth slowdown in the near term.

This is because we remain of the view that the recent slowing price growth has been driven largely by some years of significant housing affordability deterioration, and that slower house price growth for a considerable period is due, until such time that affordability has meaningfully improved.



1st time home buyers have battled to enter Cape Town's housing market in recent years, with the level of 1st time buying in the region already significantly lower than in other metros in the country, according to the FNB Estate Agent Survey.

Whereas 1st time home buying is estimated to have been 18.82% of total home buying national, for the 1st half of 2018, in the Cape Town Metro Region this estimate has dropped to a lowly 8.57%, a reflection of very poor home affordability.

We have also estimated that repeat home buyer "migration" to the Western Cape from the rest of SA slowed in 2017, a further factor in slowing Cape Town housing demand. This slowing may also be in part due to poor home affordability in Cape Town, with other major coastal regions in South Africa offering many more affordable alternatives for aspirant "semi-grants" to the coast from inland regions such as Gauteng.

Therefore, while severe drought conditions may be in the process of being alleviated in the Western Cape, which can be a positive for that region's economy, we remain of the opinion that Cape Town's house price growth will continue to slow in the near term, and move into a lengthy "benign" period in line with the broader South African housing market, while incomes in the region gradually catch up with prices.

| | Quarterly year-on-year percentage change | | | | Cumulative 15-year growth | Cumulative 5-year growth |
|--------------------------------------|--|---------|---------|---------|---------------------------|--------------------------|
| | Q3-2017 | Q4-2017 | Q1-2018 | Q2-2018 | | |
| CT METROPOLITAN ROLL UP | 12.00% | 10.79% | 9.66% | 8.69% | 455.27% | 78.24% |
| Atlantis - Mamre | 19.54% | 17.73% | 11.32% | 2.99% | 532.13% | 79.33% |
| Mitchells Plain-Eerste Rivier | 19.18% | 20.39% | 19.69% | 17.44% | 600.50% | 75.83% |
| Bellville and Surrounds | 11.45% | 11.91% | 11.68% | 11.16% | 365.80% | 63.70% |
| Western Seaboard | 14.31% | 13.46% | 12.09% | 10.21% | 357.41% | 74.69% |
| North Eastern Suburbs | 9.48% | 9.92% | 10.12% | 9.93% | 418.45% | 67.97% |
| Southern Peninsula | 10.46% | 9.53% | 8.46% | 7.19% | 394.30% | 71.11% |
| Hottentots Holland | 9.66% | 10.24% | 11.09% | 12.03% | 328.07% | 62.53% |
| City Bowl | 13.54% | 11.36% | 10.18% | 9.73% | 495.48% | 109.34% |
| Atlantic Seaboard | 15.55% | 9.06% | 4.43% | 1.94% | 607.21% | 109.30% |
| City Eastern Suburbs | 16.11% | 16.21% | 16.51% | 17.57% | 568.84% | 111.61% |
| Southern Suburbs | 11.62% | 10.22% | 8.64% | 7.42% | 433.14% | 80.98% |
| Cape Flats | 11.13% | 11.61% | 12.13% | 12.37% | 410.08% | 64.45% |

NOTES: AREA COMPOSITION OF THE CITY OF CAPE TOWN SUB-REGIONAL HOUSE PRICE INDICES

| Main Areas Included in Each Sub-Regional House Price Index | | | | | | | |
|--|-------------------|--|--|--|--|--|---|
| Former Townships | Atlantis-Mamre | Elsies River-Blue Downs-Macassar | Bellville-Parow and Surrounds | Blouberg-Milnerton-Melkbosstrand | Durbanville-Kraaifontein-Brackenfell | Southern Peninsula | Somerset West-Strand-Gordons Bay |
| Guguletu Khayelitsha Langa Nyanga | Atlantis Mamre | Belhar Blackheath Blue Downs Deft Eerste River Elsies River Macassar Matroosfontein | Bellville Goodwood Kuil's River Parow | Blouberg Melkbosstrand Milnerton | Brackenfell Durbanville Kraaifontein | Cape Point Fish Hoek Kommetjie Noordhoek Scarborough Simon's Town | Gordons Bay Sir Lowrys Pass Somerset West Strand |

| City Bowl | Atlantic Seaboard | Near Eastern Suburbs | Southern Suburbs | Cape Flats | City of Cape Town Metro House Price Index |
|--------------------|-------------------|----------------------|--------------------|------------------|--|
| | | | | | Roll-up of all City of Cape Town sub-regions |
| Foreshore | Bantry Bay | Rugby | Bishops court | Buckingham | |
| V & A Waterfront | Mouille Point | Lagoon Beach | Steenberg Golf Es | Wetton | |
| Zonnebloem | Clifton | Kensington | Silwersteen Estate | Rondebosch East | |
| De Waterkant | Camps Bay | Maitland | Claremont | Ottery East | |
| Cape Town City C | Bakoven | Salt River | Newlands | Lansdowne | |
| Gardens | Fresnaye | Woodstock | Silvertree Estate | Southfield | |
| Tamboerskloof | Sea Point | Maitland Garden V | Tokai | Heathfield | |
| Devil`s Peak Estat | Green Point | Oude Molen Villag | Rondebosch | Retreat | |
| Vredehoek | Three Anchor Bay | Pinelands | Meadowridge | Lavender Hill | |
| University Estate | Hout Bay | Windermere | Mowbray | Plumstead | |
| Schotschekloof | | | Westlake | Elfindale | |
| Walmer Estate | | | Wynberg | Nerissa Estate | |
| Oranjezicht | | | Observatory | Ottery | |
| | | | Bergvliet | Ferness | |
| | | | Kenilworth | Coniston Park | |
| | | | Royal Cape | Otyhouse Estate | |
| | | | Diep River | Edward | |
| | | | Rosebank | Crawford | |
| | | | Kirstenhof | Sunlands | |
| | | | Dreyersdal | Yorkshire Estate | |
| | | | Dennendal | Pinati | |
| | | | Forest Glade | Glen Valley | |
| | | | Constantia | Romp Vlei | |
| | | | Muizenberg | Belthorn Estate | |
| | | | | Fairways | |
| | | | | Brooklyn | |
| | | | | Romp Vallei | |
| | | | | 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 | |