

## MARKET MATTERS

### *3<sup>rd</sup> Quarter Western Cape House Price Index – Slowing Inflation, but seemingly better than the national average*

30 September 2010



As the 3<sup>rd</sup> quarter draws to a close, the FNB statistics for the period start to emerge, providing a picture of a slowing Western Cape property market, yet possibly one that is a little more resilient than many other parts of the country.

For the 3<sup>rd</sup> quarter as a whole, the Western Cape House Price Index rose year-on-year (i.e. the 3<sup>rd</sup> quarter of 2010 compared with the 3<sup>rd</sup> quarter of 2009) by 11.6%. While the FNB National House Price Index (published monthly) for September is still to be released, as at August its inflation rate had already declined to 7.2%, suggesting that the Western Cape is holding up a little better than the country as a whole.

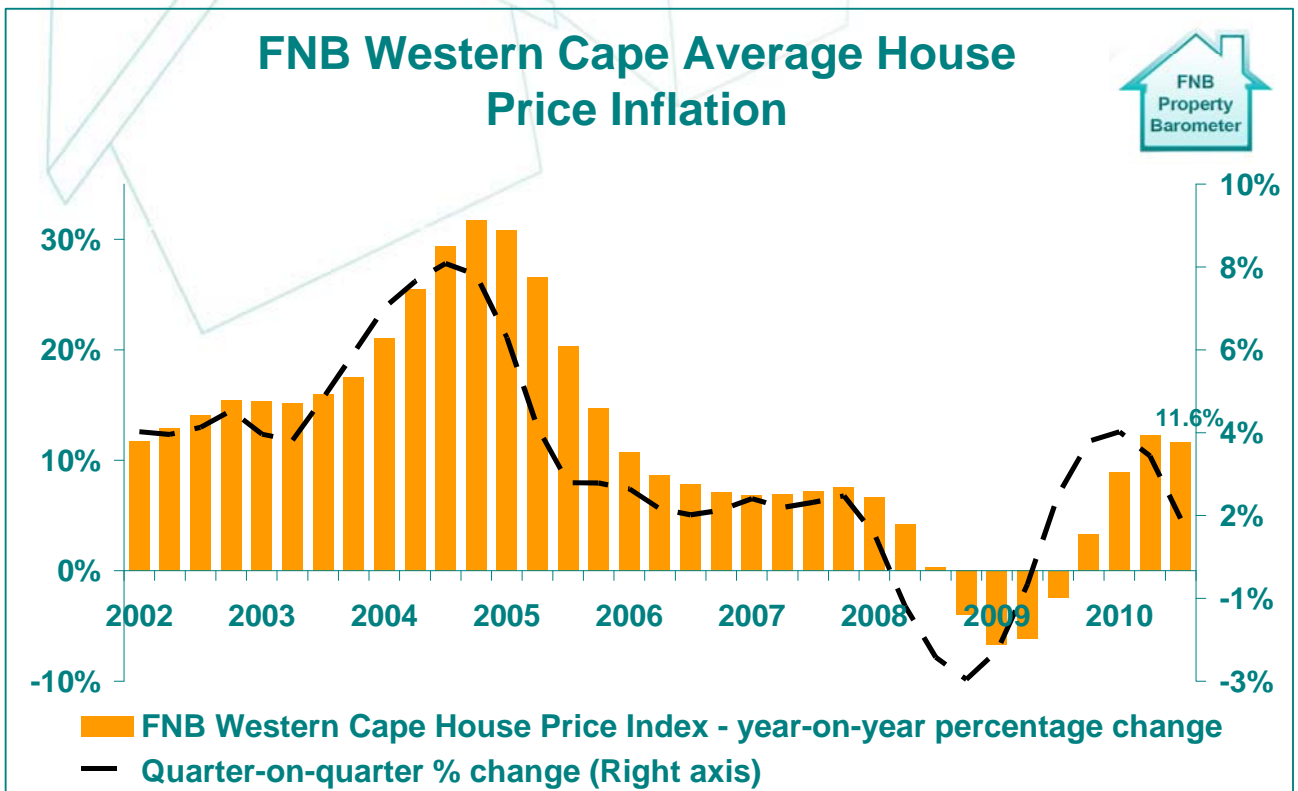
However, our region doesn't defy gravity entirely, and the 3<sup>rd</sup> quarter inflation rate does represent a slowing on the 2<sup>nd</sup> quarter's revised 12.3% rate.

On a quarter-on-quarter basis, (the 3<sup>rd</sup> quarter compared with the previous quarter), the inflation rate was 1.4%, down from 2.9% in the 2<sup>nd</sup> quarter, and the 2<sup>nd</sup> successive quarter of decline in the quarter-on-quarter inflation rate.

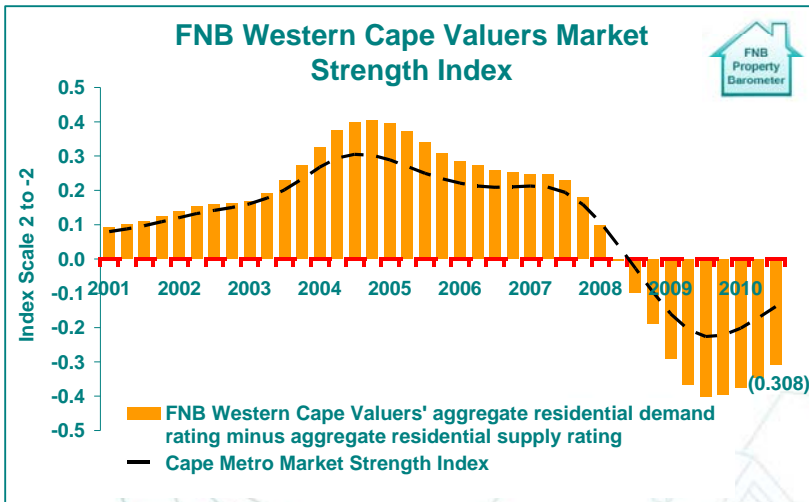
The average price recorded for the Western Cape in the 3<sup>rd</sup> quarter was R911,595, compared to the national average price of R777,491 as at August.

*So, in a nutshell, according to FNB figures, the average Western Cape house price was still increasing in the 3<sup>rd</sup> quarter, and the rate of increase for our province was believed to have been above the national average. However, the rate of increase has slowed when compared to the previous quarter, reflecting a market that is losing some steam.*

Our Market Analytics team cites a slowing global and SA economic growth rate, along with a sharp slowdown in the pace of interest rate cutting since August 2009, as the key reasons for witnessing a slowdown in house price inflation.



Our view as to why the Western Cape property market may have outperformed many other regions of the country in 2010, is that the province's economy may have been slightly less affected than certain other regions during the 2008/9 recession, due to its relatively low dependence on the highly cyclical manufacturing and mining sectors, industries which took a major beating during the recession. Our region is more services sector oriented, than for instance the Eastern Cape and KZN, which I am told normally makes our economy a little less volatile.



Turning to views regarding the strength of residential demand relative to supply, the aggregated opinion of FNB's Western Cape Valuers is that the imbalance between supply and demand in the province improved somewhat in the 3<sup>rd</sup> quarter, but that demand nevertheless still remains weak relative to supply.

When valuing a house, a valuer is asked for his/her opinion regarding demand (good, average or weak) as well as supply (also good, average or weak rating scale) of property in the relevant area. We give each demand and supply rating a numerical value (good=+1, average = 0 and weak= -1), before subtracting the aggregate supply rating from the aggregate demand rating.

The negative value in the Market Strength Index since mid-2008 reflects our valuers, as a group, consistently rating supply as stronger than demand.

The City of Cape Town Metro, when compared to the entire province, appears to be a little more stable according to the valuers' opinions regarding demand and supply over the cycle, and is seemingly less oversupplied. This is probably especially so in close proximity to Table Mountain and around the peninsula, where scarce land restricted the scale of building activity in the boom years.

*Moving forward, we are anticipating more of the same at least until some time in 2011, i.e. a slowing price inflation rate in the Western Cape. Although our valuers believe that the demand-supply imbalance has improved somewhat, they definitely are not yet saying that we are in a strong position yet. Simultaneously, the Reserve Bank has been cutting interest rates at a very slow pace over the past year, providing very little support for the highly credit-driven residential property market. And speaking of credit, I have previously mentioned that our province utilises its fair share of that. So, whilst the FNB Western Cape House Price Index suggests that our province's housing market is in better shape than many other parts of the country, our demand-supply "fundamentals" nevertheless have some way to go before they can be considered strong, and a lack of strong economic growth or significant interest rate cuts probably means a somewhat mediocre price performance for the time being.*

**Business Regards**

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