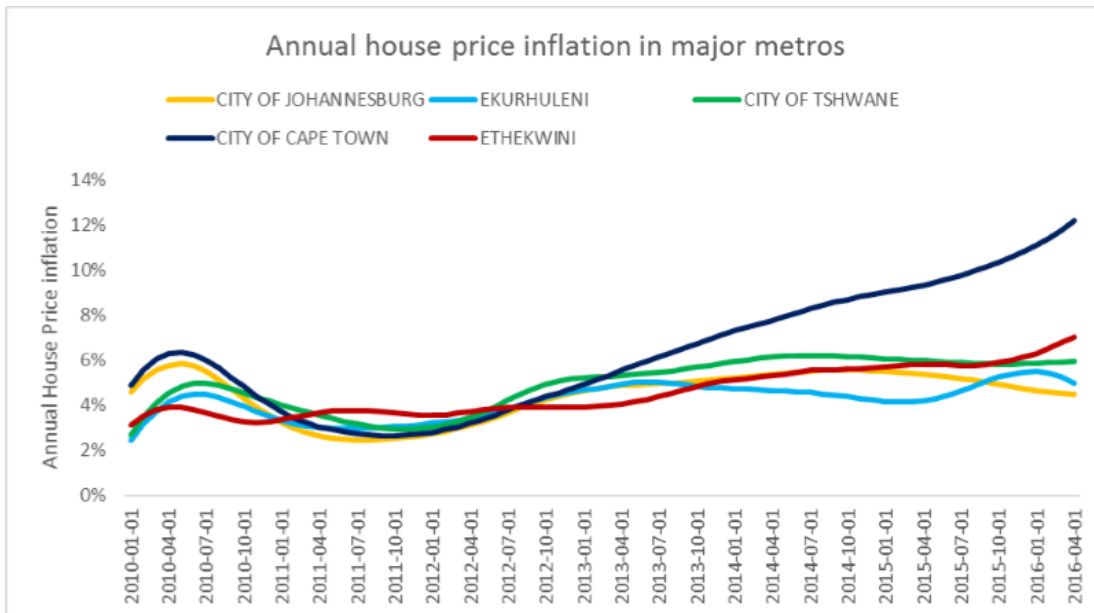




One city comes out tops with the highest house price inflation growth

After the subprime mortgage crises of 2007/2008, the South African property market took a good few years to recover and achieve an annual growth rate of 5%. There is, however, one metro that has seen significantly higher house price inflation over the years. In this newsletter, we reveal which city that is, and unpack possible reasons for its upward growth trend.



As seen in the figure above, to date, the majority of metros have continued on an annual inflation growth path of between 4% and 6%. House price inflation in the City of Cape Town, on the other hand, has continued to rise even further and is currently sitting at 12%.

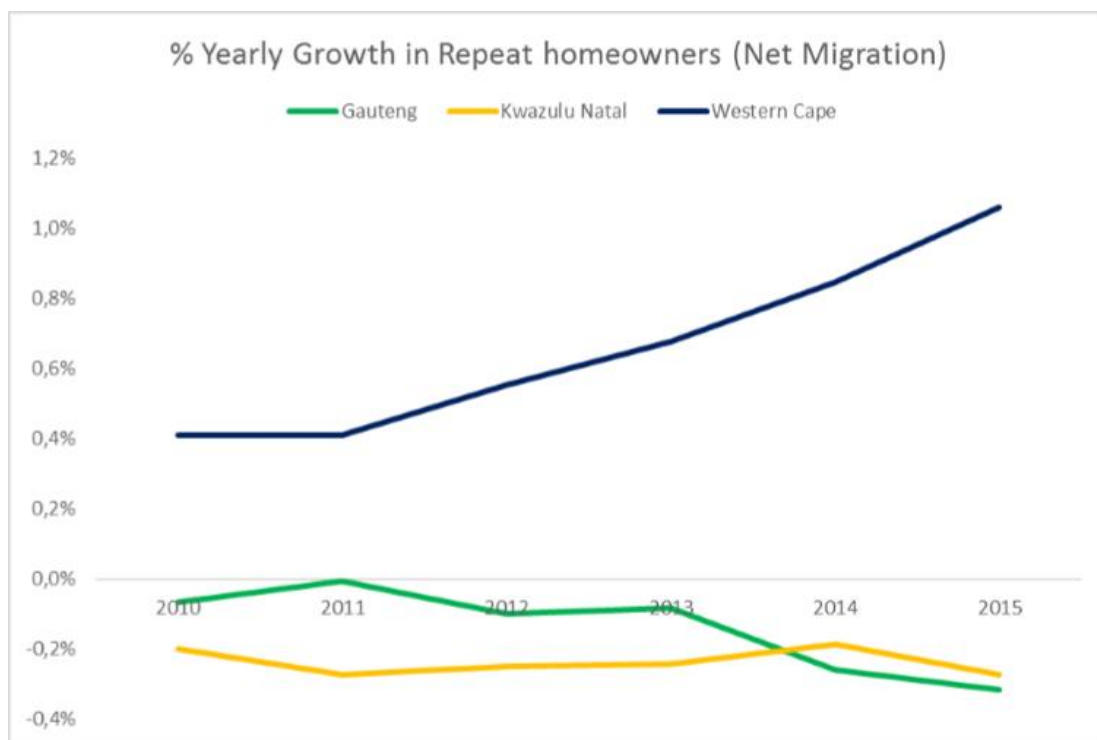
While house price inflation across the various metros is not expected to be exactly the same, the difference between the City of Cape Town and the other metros is significant enough for us to investigate some potential causes. A closer look at the classic drivers of house price inflation such as interest rate and inflation do not seem to be the main drivers in this case. This is due to the fact that the interest rate charged to home owners is the same across the country. The differences in provincial economic growth and inflation are also not significant enough to explain the divergence in house price inflation.

There is, however, a variable that seems to correlate with annual house price inflation that could explain why the City of Cape Town is seeing significantly higher growth.

In a recent newsletter, we investigated the migration trends of repeat homeowners and found that in cases where repeat homeowners moved to a different province, their province of choice was either Gauteng or the Western Cape.

What was interesting was that even though most of those migrating from Limpopo, North West and Mpumalanga chose to settle in Gauteng, most repeat owners who moved from a metro preferred settling in the Western Cape. Since the largest proportion of repeat owners live in metros, it was expected that the largest increase in repeat owners would be found in the Western Cape.

The figure below shows the yearly percentage growth in repeat homeowners per province. If the graph shows a positive value of 1% (for example) it implies that the percentage of repeat homeowners in a province grew by 1% in that year. If the graph shows a value of -0.2% it implies that the percentage of repeat owners found in a province decreased by 0.2% in that year.



What is striking about our findings as seen in the graph, is the growth by repeat homeowners in Gauteng and KwaZulu Natal which has remained constant or decreased slightly, whereas the Western Cape has seen a very consistent upward trend. In this instance, the percentage of repeat homeowners living in the Western Cape increased by 1.1% in 2015.

The cumulative effect of this migration could lead to an increase in house price inflation. This makes sense as an increase in homeowners would naturally lead to an increase in the demand for property, which in turn will increase house price inflation. Interestingly, too, is the fact that the shapes of these graphs seem to strongly correlate with the house price inflation of the metros in each province.

While it cannot be conclusively confirmed that buoyant growth seen in the City of Cape Town is only due to the positive net migration that the Western Cape has been experiencing, the correlation between house price inflation and net migration makes a good case. This is definitely something we will be keeping an eye on and will do a follow up on in the months to come.

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