

South Africa: KZN takes the lead in house price performance

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Growing interest in KwaZulu-Natal's lifestyle offering has sparked a revival in the region's residential market, bucking the national trend of slowing growth in house prices.

"The revival in the KZN residential market is largely attributable to growing interest in the region's lifestyle offering."

South African house prices, as measured by the **Pam Golding Residential Property Index**, registered a still healthy growth rate of 6.56% in January 2015. Nonetheless, it appears that the pace at which house prices are rising is beginning to lose momentum – as the market faces a range of economic headwinds, including higher global oil prices, a renewed bout of Rand weakness against the surging US dollar, the prospect of a drought-induced increase in local food prices and an increased the personal tax burden as government struggles to consolidate its finances against a backdrop of subdued economic growth.

However, the **PGP Index** is a national average and thus disguises the varied performances of house prices within different provinces, regions, cities and even suburbs. These can differ significantly as they are driven by an area's specific growth rates, migration patterns, affordability levels and dominant lifestyle trends.

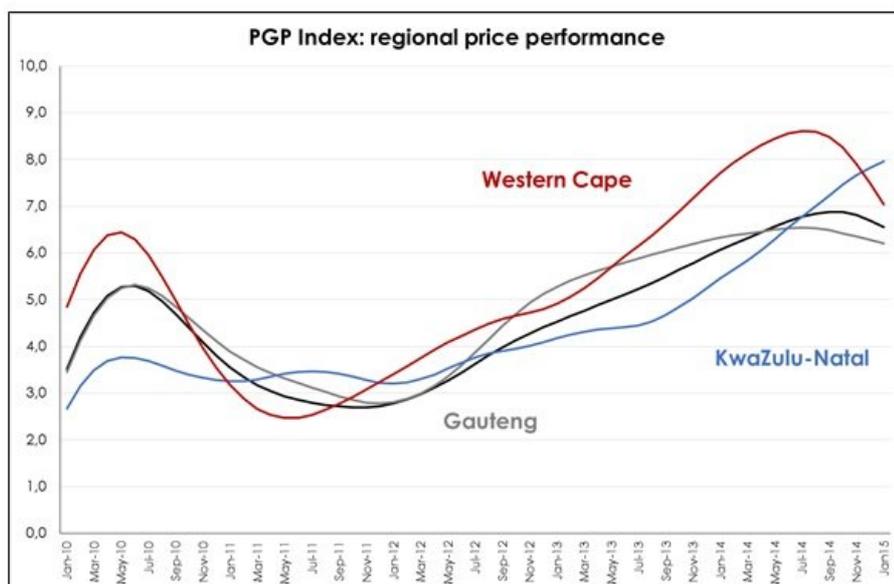
In an attempt to better understand the price trends within the various regions, the **PGP Index** tracks the performance of house prices - in separate price bands - in the three major provinces: Gauteng, Western Cape and KwaZulu-Natal (KZN).

KZN house prices outperform other regions: During the past three years, the leading province in terms of average house price appreciation has been the Western Cape (see chart below). This was particularly noticeable last year, when growth in Cape house prices exceeded the average increase recorded in the other major provinces by a margin of around 1.5%. This relative outperformance can be attributed to the steady relocation of many South African homeowners to the Cape, coupled with the ongoing shortage of stock available in the region.

It appears, however, that the Cape housing market's period of price outperformance has come to an end. Growth in the region's prices peaked at over 8.5% in the middle of last year and now, at 7.04% in January, is fast approaching the national average.

In contrast, the previously lagging KZN housing market looks set to become the regional outperformer in 2015. Since the middle of 2013, growth in house prices in this region has accelerated sharply, closing the price performance gap first with Gauteng and, more recently, the Western Cape.

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SOURCE: Pam Golding Residential Property Index

KZN the focus of significant international media attention: KZN received considerable international media attention last year, as Durban secured a position as the only African city on the New 7 Wonders Cities list and CNN voted the city one of its top 10 most under-rated cities in the world. The numerous global accolades, and surrounding media attention, also appears to have caught the eye of South African homeowners.

Pam Golding agents attribute the recent revival in the KZN residential market to growing interest in the region's lifestyle offering, as well as the sub-tropical climate and beaches. Local authorities believe that the R10 billion invested during the past decade to develop the infrastructure in the city is finally paying off.

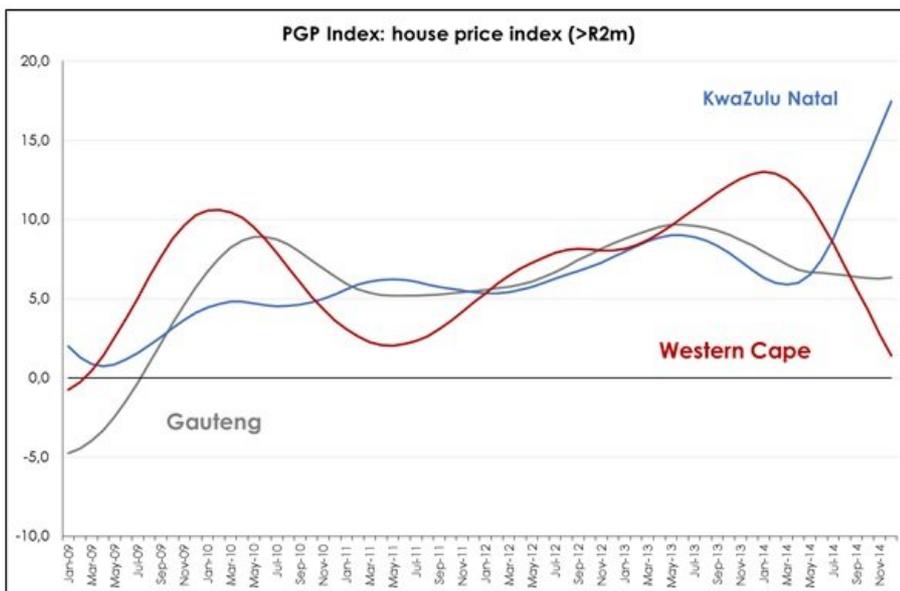
The relocation of the airport to the North Coast has created an ultra-convenient lifestyle for commuters, while the prevalence of estates and good schools has further enhance the appeal of KZN as an ideal base for the relocation of families. Finally, the relative value of money compared with property prices in areas like the Western Cape has triggered an influx of commuters while investors have also been re-entering the market. Local authorities believe that the R10 billion invested during the past decade to develop the infrastructure in the city is finally paying off.

An additional advantage offered by KZN is that unlike the growing congestion endured by Gauteng residents in areas like Sandton and Capetonians working in the city centre, KZN offers schools and corporate hubs scattered in nodes across the region. In KZN it is possible to live, work and play within a small suburb such as Durban North or La Lucia, Morningside or Umhlanga. Each of these nodes is self-sufficient with its own office hub, banking nodes and school. Growing awareness of KZN's unique lifestyle offering has seen demand outstrip supply – particularly during the second half of 2014 – and, as a result, the region has been severe stock shortages.

Upper and lower price bands outperform the regional average: Looking more closely at the relative price performance within the KZN residential market, the recovery in house prices has been driven by both the lower-priced segment (under R1 million), which registered a robust growth rate of 18.5% in January, and the higher-priced market (R2 million and above), with an increase of 19.13% at the start of the year. The robust performance of properties in the upper price band can be at least partially attributed to the influx of commuters, and their families, to the province.

Nationally, growth in the upper income price band (over R2 million) peaked in late 2013 and has since lost momentum. Within this upper price band, the price performance of the various regions has differed vastly: with a marked slowdown of prices in the Western Cape (to just 0.17% in January) and a gradual easing (to 6.5%) in Gauteng. In contrast, growth in house prices in the upper price band has accelerated sharply in KZN, recording a robust increase of 19.1% at the start of the New Year (see chart above).

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SOURCE: Pam Golding Residential Property Index

In contrast, the mid-price market (between R1 million and R2 million) in KZN has lagged. While price increases in both the lower and upper price categories, and indeed in the region overall, are gathering momentum – bucking the national trend – prices in the mid-price category are rising at a declining rate. Nonetheless, even in this category, KZN house prices are showing resilience and are not slowing to the same extent as seen in the rest of South Africa.

Looking ahead, the KZN residential market looks set to be the most vibrant this year, at least in terms of potential house price growth.

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