

Focus article: Metropolitan and rural housing market developments

Introduction

The upswing in the South African residential property market which started around 2000 was driven by a wide range of economic, social, cyclical and structural factors. The combined effect of these factors caused the demand for housing to increase significantly over this period. At the same time, the supply of housing came under pressure. As a result, property price growth increased to levels not seen since the boom of the early 1980s.

By 2004, these developments caused many property commentators and analysts to believe that the market had reached bubble proportions and that it was set for a major downward correction. However, in line with our expectations at the time, the market peaked towards the end of 2004, then steadily slowed down up to early 2007. During this period, year-on-year house price growth

declined from a high of 35,6% in late 2004 to 15,5% in the first quarter of 2007.

The slowdown in the housing market, as indicated by the steady downward trend in price growth over the past two years, was confirmed by statistics compiled by Property24. These showed that, between the first half of 2004 and the second half of 2006, the number of days that properties were listed on the market before being sold, increased significantly and the gap between asking and selling prices widened.

The gradual downward trend in the residential property market occurred long before the current upward trend in interest rates started in mid-2006. The affordability of housing is regarded as one of the major factors which caused the market to experience some slowing down.

Against the background of these developments, the housing market grew significantly over the past number of

Demographic, economic and socio-economic indicators for metropolitan and rural areas

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Metropolitan areas | | | | | | | | | | |
| Population (number) | 10 684 577 | 10 882 703 | 11 079 013 | 11 270 572 | 11 456 846 | 11 639 562 | 11 816 719 | 11 984 477 | 12 139 226 | 12 280 678 |
| Population growth (%) | - | 1,9 | 1,8 | 1,7 | 1,7 | 1,6 | 1,5 | 1,4 | 1,3 | 1,2 |
| Population density (people per km ²) | 598,6 | 609,7 | 620,7 | 631,4 | 641,8 | 652,1 | 662,0 | 671,4 | 680,1 | 688,0 |
| Households (number) | 2 977 490 | 3 066 398 | 3 162 250 | 3 319 343 | 3 369 960 | 3 450 336 | 3 560 607 | 3 650 785 | 3 733 423 | 3 802 968 |
| Formal sector employment (number) | 3 914 816 | 4 011 776 | 4 058 474 | 4 171 759 | 4 200 866 | 4 244 342 | 4 364 944 | 4 445 263 | 4 677 830 | 4 921 029 |
| Informal sector employment (number) | 289 142 | 329 995 | 400 786 | 545 768 | 653 224 | 714 516 | 606 715 | 615 407 | 626 853 | 777 776 |
| Total employment (number) | 4 203 958 | 4 341 771 | 4 459 260 | 4 717 527 | 4 854 090 | 4 958 858 | 4 971 659 | 5 060 670 | 5 304 683 | 5 698 805 |
| Average annual household income (rand) | 70 921 | 78 507 | 84 141 | 88 944 | 98 545 | 106 275 | 116 070 | 125 059 | 134 379 | 145 282 |
| Real household income growth (%) | - | 1,9 | 0,3 | 0,5 | 5,1 | 2,0 | 0,0 | 1,8 | 6,0 | 4,6 |
| Personal income (% of national total) | 48,2 | 48,5 | 49,4 | 49,9 | 50,5 | 51,2 | 51,7 | 52,1 | 52,3 | 52,4 |
| Gross domestic product (% of national total) | 55,6 | 56,1 | 56,4 | 56,9 | 56,7 | 56,7 | 56,3 | 57,5 | 58,0 | 58,4 |
| Real economic growth (%) | - | 3,0 | 1,4 | 3,4 | 4,5 | 4,2 | 4,2 | 3,6 | 5,5 | 5,7 |
| Rural areas | | | | | | | | | | |
| Population (number) | 31 519 959 | 31 989 590 | 32 455 672 | 32 919 751 | 33 381 065 | 33 836 899 | 34 289 377 | 34 726 381 | 35 140 611 | 35 530 120 |
| Population growth (%) | - | 1,5 | 1,5 | 1,4 | 1,4 | 1,4 | 1,3 | 1,3 | 1,2 | 1,1 |
| Population density (people per km ²) | 26,2 | 26,6 | 27,0 | 27,4 | 27,7 | 28,1 | 28,5 | 28,9 | 29,2 | 29,5 |
| Households (number) | 6 695 848 | 6 947 709 | 7 207 177 | 7 535 712 | 7 740 532 | 7 968 757 | 8 249 876 | 8 493 927 | 8 712 368 | 8 902 598 |
| Formal sector employment (number) | 4 254 505 | 4 297 318 | 4 229 167 | 4 267 757 | 4 279 608 | 4 250 083 | 4 354 422 | 4 473 036 | 4 517 273 | 4 501 276 |
| Informal sector employment (number) | 527 664 | 603 916 | 726 840 | 996 017 | 1 184 970 | 1 275 973 | 1 077 073 | 1 083 920 | 1 112 681 | 1 384 799 |
| Total employment (number) | 4 782 169 | 4 901 233 | 4 956 008 | 5 263 774 | 5 464 579 | 5 526 055 | 5 431 495 | 5 556 956 | 5 629 954 | 5 886 075 |
| Average annual household income (rand) | 33 875 | 36 805 | 37 874 | 39 315 | 42 031 | 43 794 | 46 756 | 49 438 | 52 472 | 56 279 |
| Real household income growth (%) | - | 0,0 | -3,7 | -1,3 | 1,5 | -1,4 | -2,2 | -0,1 | 4,7 | 3,7 |
| Personal income (% of national total) | 51,8 | 51,5 | 50,6 | 50,1 | 49,5 | 48,8 | 48,3 | 47,9 | 47,7 | 47,6 |
| Gross domestic product (% of national total) | 44,4 | 43,9 | 43,6 | 43,1 | 43,3 | 43,3 | 43,7 | 42,5 | 42,0 | 41,6 |
| Real economic growth (%) | - | 2,1 | -0,6 | 1,1 | 3,8 | 0,9 | 2,9 | 2,4 | 3,9 | 4,2 |

Source: Global Insight

years, not only in the country's major metropolitan regions, but also in rural areas.

This article focuses on the performance of the housing market at metropolitan level compared with that of the rural areas around the country. The analysis starts by defining the metropolitan and rural regions. This definition is followed by an overview of trends in the most important influencing factors: from demographics to economic indicators. An analysis of the trends in the metropolitan and rural housing markets follows, touching on aspects such as price developments, the affordability of housing, building costs, and trends in the land and building area of new housing.

Defining South Africa's metropolitan and rural areas

South Africa is regarded as having seven major metropolitan areas:

- ▶ Greater Johannesburg in Gauteng, which includes the magisterial districts of Randburg and Roodepoort in the northwest and Alberton, Benoni, Boksburg, Brakpan, Germiston, Kempton Park and Springs on the East Rand. Johannesburg and Soweto comprise the central and southern parts of the city.
- ▶ Pretoria in Gauteng.
- ▶ Bloemfontein in the Free State.
- ▶ Durban and Pinetown in KwaZulu-Natal.
- ▶ East London in the Eastern Cape.
- ▶ Port Elizabeth, Uitenhage and Despatch in the Eastern Cape.
- ▶ Greater Cape Town in the Western Cape, consisting of the magisterial districts of Bellville, Cape Town, Goodwood, Kuils River, Mitchells Plain, Simon's Town and Wynberg.
- ▶ Two other areas in the country that have experienced

strong growth and expansion over the past few years and are becoming proper metropolitan areas, are the Nelspruit-White River area in Mpumalanga and the George-Mossel Bay area in the southern part of the Western Cape. However, for the purpose of this study, these two regions were grouped with the rural areas of the country.

The rural areas of South Africa are regarded as consisting of the following:

- ▶ Gauteng, excluding Greater Johannesburg and Pretoria.
- ▶ The Free State, excluding Bloemfontein.
- ▶ Eastern Cape, excluding East London, Port Elizabeth, Uitenhage and Despatch.
- ▶ KwaZulu-Natal, excluding Durban and Pinetown.
- ▶ The Western Cape, excluding Greater Cape Town.
- ▶ Limpopo.
- ▶ Mpumalanga.
- ▶ North West.
- ▶ The Northern Cape.

Factors influencing the property market at metropolitan and rural level

- ▶ **Demographic factors:** In 2005, 12,3 million people (25,7% of the country's total population of 47,8 million) were living in the abovementioned metropolitan areas. This was 1,6 million, or 14,9%, more than in 1996. During the period from 1996 to 2005, the average annual population growth was 1,6% in the metropolitan areas.

About 35,5 million people (74,3% of the total population) were living in the country's rural areas in 2005. This was 4 million, or 12,7%, more than in 1996.

Average nominal house prices¹ in metropolitan and rural areas (rand)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Metropolitan areas | | | | | | | | | | |
| East London (Eastern Cape) | 215 418 | 224 601 | 224 208 | 227 298 | 271 676 | 277 280 | 356 363 | 494 933 | 708 586 | 796 358 |
| PE/Uitenhage (Eastern Cape) | 172 608 | 203 136 | 208 152 | 245 214 | 266 895 | 300 420 | 372 318 | 539 281 | 672 481 | 771 215 |
| Bloemfontein (Free State) | 186 387 | 202 035 | 207 502 | 231 646 | 264 222 | 294 901 | 372 138 | 518 580 | 639 335 | 761 285 |
| Greater Johannesburg (Gauteng) | 211 128 | 225 250 | 238 925 | 281 818 | 337 717 | 405 554 | 480 937 | 616 808 | 741 840 | 875 508 |
| Pretoria (Gauteng) | 228 102 | 250 010 | 261 954 | 305 726 | 359 539 | 454 119 | 539 885 | 670 756 | 812 986 | 921 884 |
| Durban/Pinetown (KwaZulu-Natal) | 196 133 | 214 980 | 229 326 | 232 380 | 265 392 | 307 220 | 401 253 | 539 211 | 723 887 | 854 238 |
| Cape Town (Western Cape) | 240 431 | 286 450 | 307 849 | 338 299 | 375 126 | 421 873 | 498 858 | 665 495 | 846 571 | 970 331 |
| Weighted average price | 213 552 | 233 365 | 242 810 | 285 204 | 330 265 | 387 195 | 466 431 | 609 396 | 752 931 | 869 618 |
| Rural areas | | | | | | | | | | |
| Eastern Cape (excl EL and PE/Uitenhage) | 172 464 | 183 921 | 175 208 | 213 768 | 239 172 | 271 367 | 328 759 | 495 342 | 582 706 | 704 726 |
| Free State (excl Bloemfontein) | 130 238 | 147 805 | 152 100 | 175 549 | 177 958 | 195 039 | 220 234 | 306 103 | 387 057 | 457 194 |
| Gauteng (excl GJHB and Pretoria) | 147 805 | 151 722 | 165 613 | 190 118 | 217 615 | 244 935 | 296 171 | 407 479 | 504 263 | 591 528 |
| KwaZulu-Natal (excl Durban/Pinetown) | 174 699 | 204 842 | 208 618 | 230 647 | 253 784 | 287 055 | 419 983 | 553 365 | 661 497 | 801 201 |
| Limpopo | 180 446 | 198 524 | 188 201 | 216 391 | 252 565 | 282 870 | 334 440 | 438 733 | 566 569 | 711 337 |
| Mpumalanga | 150 506 | 182 231 | 178 728 | 194 503 | 230 389 | 258 966 | 303 281 | 407 419 | 526 616 | 661 745 |
| North West | 157 114 | 173 665 | 191 021 | 226 057 | 266 865 | 293 024 | 332 860 | 418 214 | 527 674 | 622 363 |
| Northern Cape | 129 623 | 160 641 | 161 007 | 191 460 | 196 790 | 223 119 | 271 352 | 365 922 | 436 531 | 545 468 |
| Western Cape (excl Cape Town) | 190 642 | 251 387 | 264 116 | 300 743 | 321 163 | 369 521 | 450 273 | 617 280 | 797 841 | 904 295 |
| Weighted average price | 162 401 | 190 250 | 194 369 | 228 939 | 255 556 | 288 787 | 356 546 | 484 682 | 591 531 | 703 055 |

¹ Smoothed purchase price of houses in the 80m²-400m² size category (including all improvements) in respect of which loan applications were approved by Absa Bank. Source: Absa

The average annual population growth in these areas was 1,3% during the period from 1996 to 2005.

Population density (the number of people per square kilometre) increased by 89,4 from 589,6 in 1996 to 688 in 2005 in the metropolitan areas. In the rural areas, the population density increased by only 3,3 from 26,2 in 1996 to 29,5 in 2005.

In the metropolitan areas, the total number of households increased by 825 478, or 27,7%, between 1996 and 2005. In the rural areas, the number of households increased by 2,2 million, or 33%, from 1996 to 2005.

- ▶ **Socio-economic factors:** In the metropolitan areas, total employment increased by 1,5 million workers, or 35,6%, from 4,2 million in 1996 to 5,7 million in 2005. Of these 5,7 million workers, 4,9 million, or 86,4%, were employed in the formal sector.

In the rural areas of the country, total employment stood at 5,9 million workers in 2005. This was 1,1 million, or 23,1%, up on a total of 4,8 million employed in 1996. Formal sector employment comprised 76,3% of total employment in the rural areas in 2005.

The average annual nominal income per household in the country's major metropolitan areas increased by R74 381, or 104,9%, from R70 921 in 1996 to R145 282 in 2005. In the rural areas, households' average annual income rose by a total of R22 404 per annum, or 66,1% in total, from R33 875 in 1996 to R56 279 in 2005.

Household income in rural areas as a percentage of that in the metropolitan areas declined from 47,8% in 1996 to 38,7% in 2005, which is an indication that the annual income of households in the rural areas increased at a much slower rate (0,1% per annum in real terms) than that of households in metropolitan areas (2,5% per annum in real terms) over this period.

These household income developments caused the share of total personal income in the metropolitan areas

to increase from 48,2% of the national total in 1996 to 52,4% in 2005. The share of the rural areas declined from 51,8% in 1996 to 47,6% in 2005.

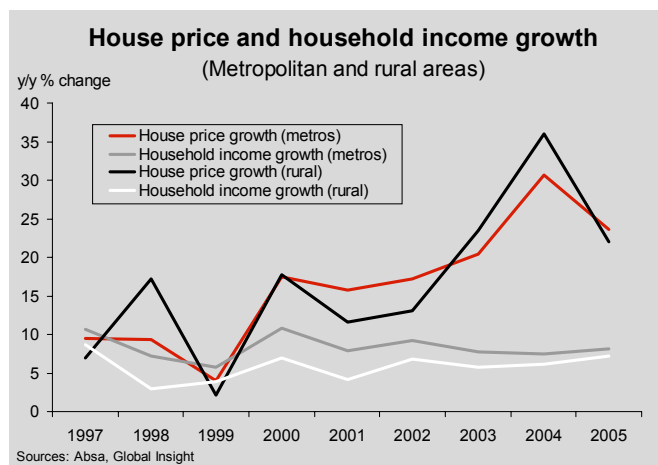
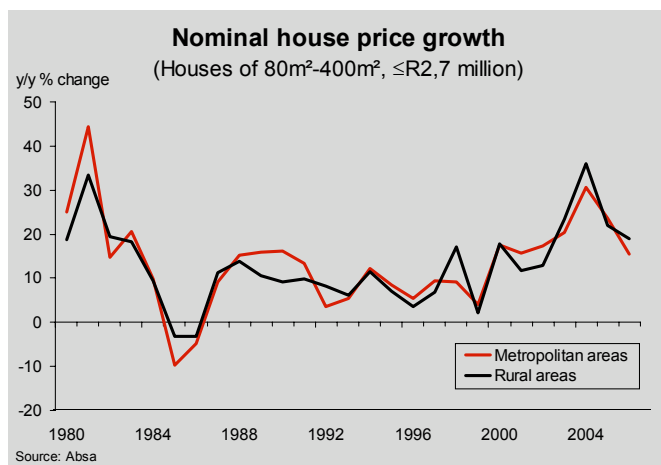
- ▶ **Economic factors:** The metropolitan areas have increased their share of total gross domestic product from 55,6% in 1996 to 58,4% in 2005, whereas the percentage contribution of the rural areas declined from 44,4% in 1996 to 41,6% in 2005. This was the result of real economic growth in the metropolitan areas averaging 3,9% per annum in the period from 1996 to 2005, compared with 2,3% per annum in the rural areas over the same period.

In 1996, the ratio of total gross domestic product in the rural areas to that in the metropolitan areas was 79,7%, declining to 71,4% in 2005.

On a national level, the sharply lower interest rates since the middle of 2003 had a positive effect on the economic performance of both the metropolitan and rural regions in South Africa.

In view of the abovementioned demographic, socio-economic and economic trends and developments in the metropolitan and rural regions of the country, it is evident that urbanisation has further increased over the years; that employment in the metropolitan areas has increased at a faster pace than in the rural areas; and that the level of household wealth in the metropolitan areas has risen more rapidly than that in the rural areas.

- ▶ **Lifestyle factors:** Hectic urban lifestyles, traffic congestion, technological progress and changing urban conditions have prompted more people to work from home and live in higher-density residential developments close to places of work and amenities such as schools, shopping centres and access routes. Also, an increasing number of people have opted to live in various types of more relaxed, tranquil, less cramped and perceived to be more secure estates. Many others, such as retirees and artists, have moved to remote rural areas and places along the coast. These changes in



lifestyle had a profound effect on property markets in both metropolitan and rural areas.

Housing market trends in metropolitan and rural areas

► **House prices:** Over the years, year-on-year growth in nominal house prices in the metropolitan areas seems to be closely correlated with that in rural areas. Prices in both the rural and metropolitan areas have increased significantly since 2000, with growth rates peaking in 2004 before subsiding in 2005 and 2006. This was largely the result of housing becoming less affordable right across the country (see section below on the affordability of metropolitan and rural housing).

Since the start of the housing boom a few years ago, nominal house prices in the metropolitan areas have increased by a total of 204,9% (from an average of R285 200 in 2000 to R869 600 in 2006). In the rural areas, nominal house prices have risen by a total of 207,2% (from an average of R228 900 in 2000 to R703 100 in 2006). The ratio of rural to metropolitan house prices increased marginally from 80,3% in 2000 to 80,9% in 2006. This was probably the result of strong price growth in certain rural areas, especially along the coast, where supply and demand conditions have pushed prices up significantly.

► **Affordability of housing:** A generally accepted method of determining how the affordability of housing has changed over time is to calculate the ratio of house prices to household income.

During the past number of years (2000 to 2005), the nominal year-on-year growth in house prices outstripped that of gross household income by a large margin in the metropolitan as well as in the rural regions of the country. This resulted in the ratio of house prices to household income increasing to higher levels across the country over this period.

In the metropolitan areas, the house price-to-income ratio increased from a relatively stable 2,7 times on

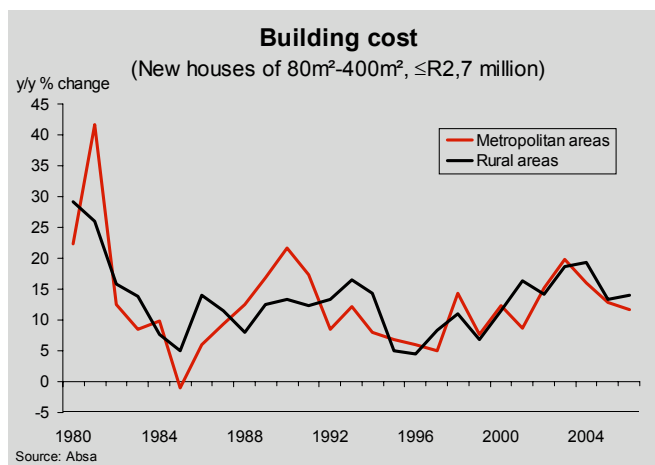
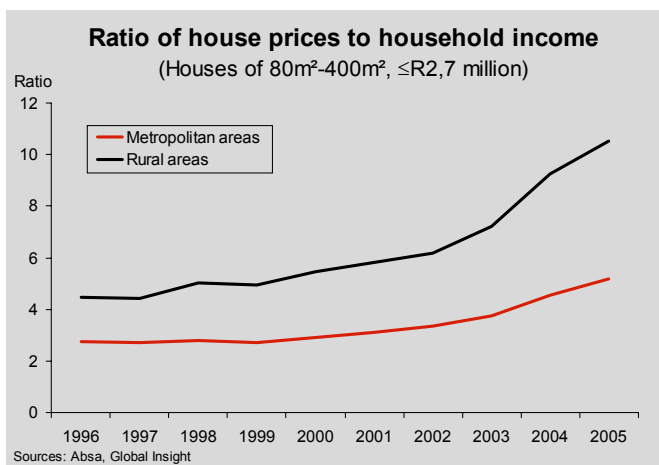
average during 1996 to 1999, to 2,9 times in 2000 and 5,2 times in 2005. In the rural areas, this ratio jumped sharply from 4,8 times in 1999 to as high as 10,5 times in 2005. With house prices having risen faster than household income in both the metropolitan and rural areas since 2000, housing has, in general, become increasingly less affordable during the past few years up to 2005.

Despite house prices in the metropolitan areas having been on average 28% higher than in the rural areas in the period from 1996 to 2005, the house price-to-income ratio has been higher in the rural areas than in the metropolitan areas. The ratio has also increased at a much faster rate in the rural areas than in the metropolitan areas since 2000. The main reason for this is that the level of household income in the metropolitan areas is, on average, significantly higher than in the rural areas, whereas the metropolitan areas have also recorded higher growth in nominal income of around 8,5% per annum between 1996 and 2005 compared with about 6% per annum over the same period in the rural areas.

Against this background, the affordability of housing has decreased at a faster rate in the rural areas than in the metropolitan areas. The result is that, in terms of house prices in relation to household income, residential property can be regarded having become more expensive in the rural areas than in the metropolitan areas of the country.

► **Building costs for new housing:** Over the past few years, the rise in building costs in metropolitan as well as in rural areas has been above the headline inflation rate. This can be regarded as an indication of an active building and construction sector in all regions. Factors such as a strong demand for building materials and skilled labour in view of the demand for new housing have largely contributed to this development.

However, the year-on-year growth in the cost of building a new house peaked in 2003 in the metropolitan



areas and in 2004 in the rural areas. This can be ascribed to the large number of property developers and building contractors active in the housing market in recent years, leading to greater competition.

► **Size trends in new housing:**

- **Building area:** According to Absa’s calculations, the average building area of newly-built residential properties in the country’s metropolitan and rural areas was on a gradual upward trend between the mid-1990s and 2003.

However, the average size of new housing reached a recent peak of 181 m² in the metropolitan regions in 2003 and 157 m² in the rural regions. A declining trend then occurred in both areas. This is probably because the affordability of housing started to impact negatively on the average size of newly-built housing across the country.

- **Land area:** The average size of stands on which new housing was built has been on a declining trend in both metropolitan and rural areas since the early 1990s. This can be ascribed to suitable vacant land for residential development becoming increasingly scarce, not only in the rapidly growing metropolitan areas, but also in most rural areas. The availability of services such as water and electricity has to a large extent contributed to this trend, causing prices for fully-serviced stands to increase sharply in recent years. Other factors such as lifestyle changes (see above) have also

played an important role in the average land area for new housing dropping to an all-time low.

In 2006, the average land area declined to 474 m² in the metropolitan areas, which was only 40,8% of the average of 1 161 m² back in 1980. In the rural areas, the average land area was 572 m² in 2006, which was 43,7% of the average of 1 310 m² in 1980.

Summary

Since 2000, the housing market in South Africa experienced strong growth in metropolitan as well as rural areas, largely as a result of a range of demographic, economic and socio-economic factors.

Population growth was faster in the metropolitan areas than in the rural areas. This was mainly driven by the process of urbanisation. Formal sector employment increased significantly in the metropolitan areas, with the average level of household income rising faster in the metropolitan areas than in the rural areas.

Although house prices have been higher in the metropolitan areas than in the rural areas over the years, housing in the rural areas is regarded as being less affordable than in the metropolitan areas, mainly as a result of lower and slower-growing household income in rural regions compared with the metropolitan regions.

As the affordability of housing has come under pressure in recent years in rural as well as metropolitan areas, the building and land areas of new housing have declined throughout the country.

