How to track property markets in African cities

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This paper is based on a scoping study commissioned by Urban LandMark

Titled:

An essential guideline to develop a reporting framework for tracking urban land markets across sub-Saharan Africa.

Unpublished draft report,
July 2010.

Introduction

- Lack of statistics

- Results in extremely inefficient markets

- So the purpose of this paper is to consider the viability and practicality of:

1. The rapid assessment of African cities' property markets using descriptive secondary information and interviews

2. Compiling quantitative indicators with which an analyst can track these markets over time to introduce an economic perspective

Why an economic perspective?

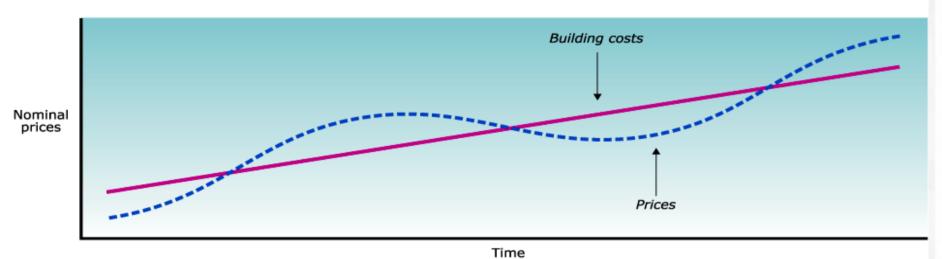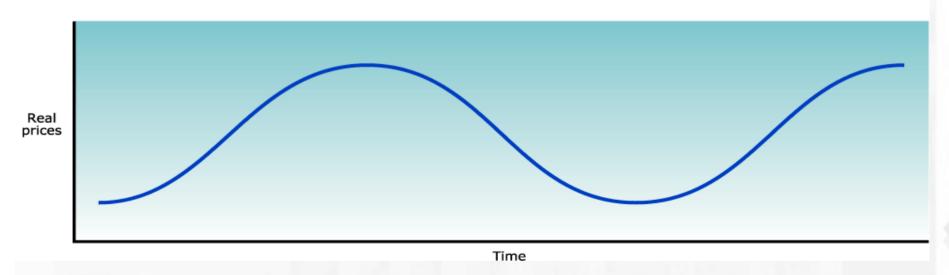# Well, it's the economy, stupid!*

*with acknowledgment to Bill Clinton

How prices relate to replacement costs

1. Nominal prices
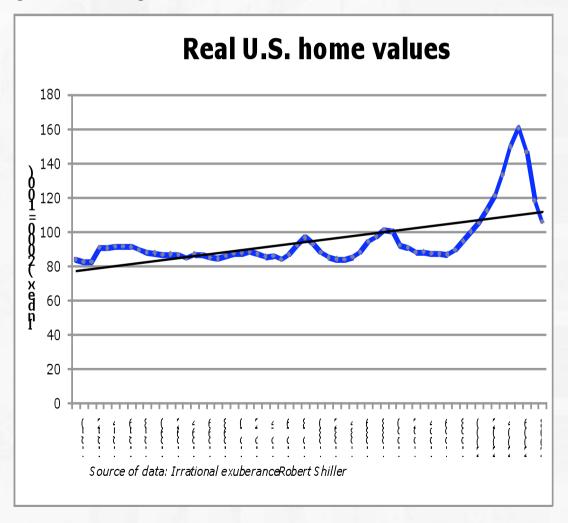
Nominal prices
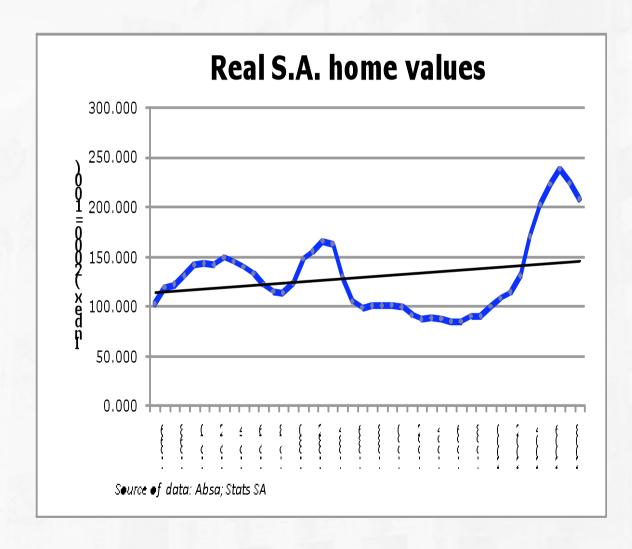
Building costs

Prices

Time

2. Deflated prices

Real prices

Time

The relationship between prices/rentals and replacement costs in a developed economy
(where supply is mostly elastic)

Real U.S. home values

Source of data: Irrational exuberance Robert Shiller

Real S.A. home values

Source of data: Absa; Stats SA

The proposed indicators

Our approach was to opt for 'modest and cost-effective' indicators, reliant on 'simple' data from 'easily accessible' and 'reliable' sources

How to compile the indicators

- For the formal market, we propose the expert-panel method as preferred survey methodology
  - It tolerates smaller sample sizes
  - Ability to filter out outliers by asking an opinion
  - Seeming willingness of brokers to participate
  - Method has a proven track record
- Thus,

  it results in cheaper, more accurate and timely data than tracking actual transactions
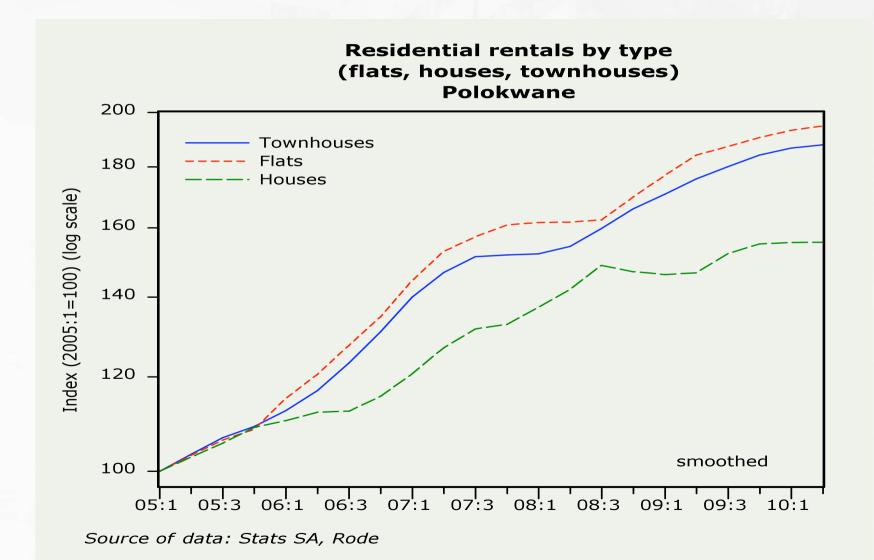
Proposed indicators

- Capitalization rates

- Market rental levels in formal areas
- Market rentals for shacks in informal (slum) areas

- Land values

- House-price indices

- A building-construction-cost index

- Building-construction activity

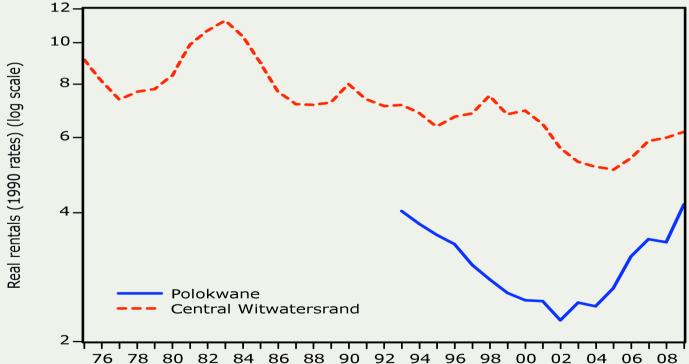- Vacancies

- Operating costs per square metre

Polokwane as a demonstration model

**Residential rentals by type
(flats, houses, townhouses)
Polokwane**

Source of data: Stats SA, Rode

Polokwane as a demonstration model

Industrial property cycle:
Real Central Witwatersrand and Polokwane rentals

Source of data: Rode's Time Series; MFA; JBCC CPAP Haylett Formula

Conclusions

- The expert-panel method is superior to all alternatives — also in Africa — to produce:
    - ➢ Cross-sectional data
    - ➢ Time series

- However, time series data only become useful after several measurements

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