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**Explanatory notes:**

The Absa House Price Indices, available back to 1966, are based on the total purchase price of houses in the 80m<sup>2</sup>-400m<sup>2</sup> size category, priced at R3,1 million or less in 2008 (including improvements), in respect of which mortgage loan applications were approved by Absa. Prices are smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index and price growth data may differ materially from previously published figures.

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## Growth in home values appears to have peaked

### Latest trends

The value of homes in the middle segment of the South African residential property market continued to rise on a year-on-year basis in July 2010, but at a slowing pace. The average nominal value of small, medium and large houses for which Absa approved mortgage finance (see explanatory notes), increased by a weighted 11,9% year-on-year (y/y) in July. Nominal house price growth of 13,2% y/y and 13,7% y/y was recorded in June and May respectively. The average price of a middle-segment house came to about R1 065 200 in July.

After adjustment for the effect of inflation, i.e. in real terms, middle-segment home values were up by 8,6% y/y in June (up a real 8,7% y/y in May), based on consumer price inflation slowing down to 4,2% in June from 4,6% y/y in May.

The value of **small houses** (80m<sup>2</sup>-140m<sup>2</sup>) increased by a nominal 33,6% y/y in July this year from a revised 31,6% y/y in June. This brought the average nominal value of a home in this segment to about R868 600 in July. The average real value was up by 26,3% y/y in June, after rising by 22,5% y/y in May.

Although the average value of homes in the small category increased sharply on a year-on-year basis over the past few months, there are early indications that price growth in this segment of the market may peak in the near future. Year-on-year price growth appears to have already peaked in the segments of medium-sized and large houses, especially in nominal terms.

**Absa House Price Indices (nominal, 2000=100)**

Month	Small houses 80-140 m <sup>2</sup>			Medium-sized houses 141-220 m <sup>2</sup>			Large houses 221-400 m <sup>2</sup>		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Jan	341.8	337.7	361.6	379.6	375.5	383.5	382.8	375.2	390.6
Feb	342.7	335.2	377.2	379.9	373.3	388.3	384.2	374.1	393.5
Mar	343.2	332.4	393.0	379.8	371.1	391.6	384.7	373.8	396.5
Apr	343.6	329.5	407.7	379.6	368.9	393.5	383.8	375.0	398.8
May	344.0	327.3	419.6	379.7	367.0	393.9	382.4	377.3	400.2
Jun	343.8	326.3	429.3	380.2	365.5	393.5	380.8	380.2	401.1
Jul	343.3	326.4	436.1	380.8	364.8	392.5	379.5	383.2	401.4
Aug	342.7	327.3		381.4	364.9		378.9	385.4	
Sep	342.0	329.2		381.7	366.3		378.6	386.4	
Oct	341.4	332.6		381.2	369.2		378.5	386.7	
Nov	340.7	338.6		379.8	373.2		377.8	387.2	
Dec	339.6	348.3		377.7	378.1		376.6	388.4	
Average	342.4	332.6	403.5	380.1	369.8	391.0	380.7	381.1	397.4

In the category of **medium-sized houses** (141m<sup>2</sup>-220m<sup>2</sup>), the average nominal value of properties was up by 7,6% y/y in July 2010, after rising by a revised 7,7% y/y in June. As a result, the average nominal price of a house in this segment came in at a level of around R980 000 in July. In real terms the average value of a medium-sized house increased by 3,3% y/y in June, after increasing by 2,6% y/y in May.

Year-on-year growth in the average nominal value of **large houses** (221m<sup>2</sup>-400m<sup>2</sup>) slowed down further to 4,7% y/y in July from a revised growth rate of 5,5% in June. The average nominal value of a large house was R1 461 800 in July this year. In real terms the average value of a home in the large segment was up by 1,2% y/y in June, after rising by 1,4% y/y in May.

The moderation in year-on-year house price growth is largely related to the base effect of a recovery in price growth in the latter half of 2009. This development is expected to continue to impact price growth in the second half of 2010.

## Outlook

With consumer price inflation set to bottom in the near term, interest rates are forecast to remain at current levels towards the end of the year and into the first half of 2011, providing no further stimulus to the residential property market. However, inflation trends and related factors, as well as developments in and prospects for the global and local economy are expected to be thoroughly analysed and debated by the South African Reserve Bank's Monetary Policy Committee when meeting again in September and November to decide on the way forward for domestic interest rates.

Year-on-year house price growth is forecast to slow down further in the months towards year-end, largely driven by the base effect of a recovery in property prices in the second half of 2009. Real house price growth in the rest of the year will be determined by nominal price trends as well as the course of consumer price inflation.

## Absa House Price Indices

### Houses of 80m<sup>2</sup>-400m<sup>2</sup>, up to R3,1 million

Category of housing	Nominal y/y % change			Real y/y % change		
	June 2010	July 2010	Year-to-date 2010	May 2010	June 2010	Year-to-date 2010
Small houses (80m <sup>2</sup> -140m <sup>2</sup> )	31.6	33.6	22.0	22.5	26.3	14.2
Medium-sized houses (141m <sup>2</sup> -220m <sup>2</sup> )	7.7	7.6	5.8	2.6	3.3	0.4
Large houses (221m <sup>2</sup> -400m <sup>2</sup> )	5.5	4.7	5.4	1.4	1.2	0.4



