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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 R3,5 million or less in 2011 (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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## House price growth appears to be peaking

### Latest trends

According to Absa's calculations, the nominal value of homes in the medium-sized (building area of 141m<sup>2</sup>-200m<sup>2</sup>) and large (building area of 221m<sup>2</sup>-400m<sup>2</sup>) categories of the South African housing market improved further in October 2011 compared with a year ago. House prices in the small segment (building area of 80m<sup>2</sup>-140m<sup>2</sup>) continued to contract on a year-on-year basis, mainly as a result of base effects.

However, year-on-year price changes appear to be peaking in all three the abovementioned categories of housing, which are related to slowing or declining price trends on a monthly basis since earlier this year.

In real terms, i.e. after adjustment for the effect of inflation, annual price deflation continued across all three segments of housing up to September 2011, impacted by rising headline consumer price inflation, which reached a level of 5,7% year-on-year (y/y) in September. The average real price (at constant 2008 prices) of houses in the middle-segment of the market (see explanatory notes) was in September this year about 13% below its peak of mid-2007. This was the result of average nominal house price growth being below the average headline consumer price inflation rate during this period.

Average nominal house prices in the various segments were as follows in October 2011, with nominal and real price changes presented in the table on the next page:

- Small homes (80m<sup>2</sup>-141m<sup>2</sup>): R734 800
- Medium-sized homes (141m<sup>2</sup>-220m<sup>2</sup>): R1 009 500
- Large homes (221m<sup>2</sup>-400m<sup>2</sup>): R1 475 800

**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>		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
	Jan	341.8	364.7	379.5	375.1	383.1	385.7	373.1	392.4
Feb	337.0	376.9	379.8	372.7	387.2	385.6	371.6	395.1	407.2
Mar	331.5	389.1	379.9	370.4	390.4	386.6	371.2	398.0	407.4
Apr	326.8	399.0	380.0	368.2	391.9	389.2	372.7	400.1	406.2
May	324.2	403.8	380.0	366.2	391.9	393.0	375.4	400.9	404.5
Jun	324.8	402.9	379.6	364.9	390.6	397.0	379.0	400.1	403.3
Jul	328.0	397.6	378.2	364.8	388.7	400.3	382.8	398.3	403.0
Aug	332.5	390.7	375.7	365.6	387.3	402.5	385.9	396.5	403.4
Sep	336.8	384.6	372.6	367.5	386.8	403.8	387.8	396.1	404.2
Oct	341.3	380.8	368.9	370.6	386.7	404.1	388.6	397.3	405.2
Nov	346.6	379.1		374.3	386.7		389.2	399.8	
Dec	354.2	379.0		378.6	386.4		390.3	403.0	
Average	335.5	387.3	377.4	369.9	388.1	394.8	380.6	398.1	405.0

## Outlook

The South African economy is forecast to grow by a real 3,1% this year (2,8% in 2010), with growth expected to rise marginally to 3,4% in 2012. These growth forecasts came on the back of a relatively subdued pace of economic expansion expected in North America, Europe, the United Kingdom and Japan this year and next year, which may impact South Africa's exports to these parts of the world. The country's real gross domestic expenditure, a reflection of domestic demand, is forecast to record steady growth of around 4% per annum in 2011 and 2012, which will support the economy's growth performance from a local perspective.

Although headline consumer price inflation, including core inflation (headline inflation, excluding the components of food, non-alcoholic beverages, petrol and energy) is expected to rise further, interest rates are forecast to remain low well into next year before being hiked. However, if economic conditions continue to deteriorate, interest rates may be lowered further from current levels.

Based on house price trends up to October this year, and the outlook for the economy and the household sector, nominal price growth in the middle segment of the housing market is projected at between 2% and 2,5% for the full year of 2011. Price growth is currently forecast to improve in 2012, but to remain below 5% in nominal terms. However, in real terms, house prices are set to decline further towards the end of the year and into next year, affected by rising headline consumer price inflation, which is forecast to marginally breach the 6% level by late 2011 and for part of 2012.

### Absa House Price Indices

#### Houses of 80m<sup>2</sup>-400m<sup>2</sup>, up to R3,5 million

Category of housing	Nominal y/y % change			Real y/y % change		
	September 2011	October 2011	Year-to-date 2011	August 2011	September 2011	Year-to-date 2011
Small houses (80m <sup>2</sup> -140m <sup>2</sup> )	-3.1	-3.1	-3.0	-8.7	-8.3	-7.2
Medium-sized houses (141m <sup>2</sup> -220m <sup>2</sup> )	4.4	4.5	1.6	-1.4	-1.2	-3.1
Large houses (221m <sup>2</sup> -400m <sup>2</sup> )	2.1	2.0	1.9	-3.4	-3.4	-2.6



