

Compiled by:  
Jacques du Toit  
Senior Property Analyst  
Absa Home Loans  
Absa Group Limited  
(Reg No 1986/003934/06)

45 Mooi Street  
Johannesburg  
2001

PO Box 7735  
Johannesburg  
2000  
South Africa

Tel: +27 (0) 11 350 7246  
E-mail: jacques@absa.co.za  
Website: <http://www.absa.co.za>

**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 R3,6 million or less in 2012 (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 remains low and is slowing down

The slowdown in nominal year-on-year house price growth, evident towards the end of 2011, continued in January 2012. On a monthly basis nominal price growth remained in negative territory up to the first month of the year. In real terms, i.e. after adjustment for the effect of inflation, house prices deflated further up to December last year against the backdrop of a consumer price inflation rate of 6,1 year-on-year (y/y) at year-end.

The slowdown in the pace of house price growth can be attributed to the combined effect of the following factors, which affect consumers and eventually impact housing demand, growth in mortgage finance and house price trends:

- After interest rates were cut by 50 basis points in late 2008 and another 450 basis points in 2009, rates were lowered by a further 150 basis points in 2010. Last year saw interest rates remaining unchanged, not providing any further stimulus to the housing market.
- Many consumers continued to experience some financial strain up to late 2011 against the background of a low level of household savings; rising consumer price inflation, impacting spending power; relatively high levels of household debt in relation to income; and damaged consumer credit records, affecting the accessibility of credit.
- Employment remained under pressure in the first half of 2011, improving only slightly in the third quarter of the year.
- Consumer confidence was relatively low in 2011 compared with 2010, especially in the second half of last year.

Average nominal price levels of houses in the various categories of the middle segment of the market were as follows in January 2012, with nominal and real price changes presented in the table on the next page:

- Small homes (80m<sup>2</sup>-141m<sup>2</sup>): R664 400
- Medium-sized homes (141m<sup>2</sup>-220 m<sup>2</sup>): R995 000
- Large homes (221m<sup>2</sup>-400m<sup>2</sup>): R1 559 800

**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>		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Jan	365.5	381.8	333.5	383.8	385.9	398.3	391.7	404.7	428.2
Feb	377.8	381.6		388.2	385.5		394.6	406.6	
Mar	390.0	380.9		391.2	386.5		397.7	407.0	
Apr	399.8	379.9		392.1	389.1		400.2	406.0	
May	404.4	379.6		391.2	393.1		400.8	404.5	
Jun	403.2	379.4		389.1	397.4		399.7	403.6	
Jul	397.5	378.1		386.8	400.9		397.2	404.2	
Aug	390.4	374.2		385.5	402.6		394.9	406.8	
Sep	384.6	367.4		385.4	402.5		394.0	410.8	
Oct	381.4	358.7		386.0	401.5		395.1	415.7	
Nov	380.6	349.7		386.7	400.4		397.9	420.5	
Dec	381.2	341.1		386.7	399.4		401.5	424.8	
Average	388.0	371.0	333.5	387.7	395.4	398.3	397.1	409.6	428.2

After having expanded by an estimated real 3% in 2011, the South African economy is forecast to grow by 2,8% in 2012. The lower growth expected this year will largely be the result of a slower pace of expansion projected for the world economy, which will impact South Africa's export performance. A weaker rand exchange rate compared with last year will, however, provide some support to the country's export earnings.

Headline consumer price inflation, currently outside the inflation target range of 3%-6%, is forecast to remain above the 6% level throughout 2012. Inflation will be mainly driven by upward pressure on food prices, fuel prices (impacted by oil price and rand exchange rate movements), and property running costs such as municipal rates, taxes, levies and electricity price hikes.

Based on the abovementioned expectations regarding the performance of the economy and inflation, interest rates are projected to remain at current levels until late this year before being hiked on the back of inflationary pressures.

With the residential property market expected to continue to reflect conditions and developments in the economy and the household sector, the average nominal price of houses in the middle segment of the market is forecast to show relatively low growth in 2012 after rising by only around 2% in 2011. In real terms house prices are set to deflate further this year, based on expected low nominal price growth and headline consumer price inflation to remain above the 6% level.

### Absa House Price Indices

#### Houses of 80m<sup>2</sup>-400m<sup>2</sup>, up to R3,6 million

Category of housing	Nominal y/y % change			Real y/y % change		
	November 2011	December 2011	January 2012	October 2011	November 2011	December 2011
Small houses (80m <sup>2</sup> -140m <sup>2</sup> )	-8.1	-10.5	-12.8	-11.3	-13.4	-15.7
Medium-sized houses (141m <sup>2</sup> -220m <sup>2</sup> )	3.5	3.3	3.2	-1.9	-2.4	-2.7
Large houses (221m <sup>2</sup> -400m <sup>2</sup> )	5.7	5.8	5.8	-0.8	-0.4	-0.3

