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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 R3,8 million or less in 2013 (including improvements), in respect of which mortgage loan applications were received and 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 indices

10 May 2013

### House price growth appears to have peaked

Nominal year-on-year growth in the average value of homes in the middle segment of the South African residential property market appears to have reached an upper turning point in March 2013. This is in line with the expectation that base effects and slowing monthly price growth since mid-2012 would eventually bring about a moderation in year-on-year price growth. These trends are according to the Absa house price indices, which are based on applications for mortgage finance received and approved by the bank in respect of middle-segment small, medium-sized and large homes (see explanatory notes).

Middle-segment nominal house price growth was slightly lower at 11,1% year-on-year (y/y) in April this year, after a revised growth rate of 11,3% y/y in March. Real price growth, i.e. after adjustment for the effect of consumer price inflation, came to 5,2% y/y in March on the back of an inflation rate of 5,9% y/y in the month.

The average nominal value of homes in each of the three middle-segment categories was as follows in April 2013:

- Small homes (80m<sup>2</sup>-140m<sup>2</sup>): R736 800
- Medium-sized homes (141m<sup>2</sup>-220 m<sup>2</sup>): R1 066 500
- Large homes (221m<sup>2</sup>-400m<sup>2</sup>): R1 615 400

The headline consumer price inflation rate averaged 5,7% y/y in the first quarter of 2013, with inflationary pressures caused by rising fuel prices on the back of international oil price and rand exchange rate movements. The weakening in the exchange rate during 2012 and into 2013 came on the back of factors such as labour market instability, credit rating downgrades and a persistent large current account deficit. Since the start of the year up to late March, the rand depreciated by around 9% against the US dollar, before strengthening somewhat during April and early May. The oil price dropped from around \$118 per barrel in mid-February to just above \$100 per barrel in April and May. These exchange rate and oil price movements caused a substantial over-recovery in petrol, diesel and paraffin prices in April and early May, which are expected to lead to a further reduction in fuel prices and some easing of inflationary pressures in the near term.

Interest rates remained stable since last cut in July 2012, mainly as a result of trends in and prospects for the economy, inflation and the household sector. Although Absa's view is for interest rates to stay at current levels until mid-2014, financial market sentiment is mounting for a further rate cut later this month when the South African Reserve Bank's Monetary Policy Committee meets. This expectation of another cut in interest rates comes against the background of subdued global growth and domestic economic developments. Continued low interest rates will support the property market and benefit the affordability of housing and mortgage finance.

Based on the latest trends in house price growth and factors impacting the housing market, single-digit nominal year-on-year price growth is forecast for the full year. Real house price growth will continue to be driven by a combination of movements in nominal prices and consumer price inflation.

### Absa house price indices (nominal, 2000=100)

Houses of 80m<sup>2</sup>-400m<sup>2</sup>, up to R3,8 million

Month	Small houses 80m <sup>2</sup> -140 m <sup>2</sup>			Medium-sized houses 141m <sup>2</sup> -220 m <sup>2</sup>			Large houses 221m <sup>2</sup> -400 m <sup>2</sup>		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
January	394.0	330.5	382.6	388.5	389.4	428.8	403.7	409.3	436.9
February	393.9	328.4	378.4	388.8	389.8	428.7	405.8	407.2	439.1
March	390.7	329.8	374.3	389.7	392.2	428.1	406.2	405.6	441.4
April	385.9	333.5	369.9	391.6	395.7	426.9	405.3	405.6	443.5
May	381.7	339.3		394.5	399.5		404.2	407.3	
June	378.6	347.0		397.8	403.4		404.1	410.6	
July	375.6	356.1		400.5	407.6		405.5	415.0	
August	371.5	365.5		401.4	412.1		408.1	420.0	
September	365.2	374.4		400.4	416.7		410.9	424.9	
October	356.0	381.9		397.7	421.3		412.7	429.2	
November	345.7	386.0		394.3	425.2		412.8	432.5	
December	336.4	385.8		391.1	427.7		411.4	434.8	
Average	372.9	354.9	376.3	394.7	406.7	428.1	407.6	416.8	440.2

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Houses of 80m<sup>2</sup>-400m<sup>2</sup>, up to R3,8 million

Category of housing	Nominal year-on-year % change			Real year-on-year % change		
	March	April	Year-to-date	February	March	Year-to-date
	2013	2013	2013	2012	2013	2013
Small (80m <sup>2</sup> -140m <sup>2</sup> )	13.5	10.9	13.9	8.8	7.2	8.7
Medium (141m <sup>2</sup> -220m <sup>2</sup> )	9.1	7.9	9.3	3.9	3.1	3.8
Large (221m <sup>2</sup> -400m <sup>2</sup> )	8.8	9.3	8.2	1.9	2.8	2.0

### Absa house price index

Houses of 80m<sup>2</sup>-400m<sup>2</sup>, up to R3,8 million



