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## Housing review

## Fourth quarter 2013

- The South African economy expanded at a real rate of around 2% in the first half of 2013 compared with the corresponding period last year. Growth in the second quarter of the year was mainly underpinned by an improvement in the real value added by the secondary sector, which was the result of a strong rebound in the manufacturing sector after a noticeable contraction in the first quarter. The economy is forecast to grow by a real 2% in 2013, accelerating to 2,8% in 2014.
- After a relatively stable headline consumer price inflation rate of 5,7% year-on-year in the first half of 2013, inflationary pressures from food prices, transport costs, property running costs, the exchange rate and wage hikes caused inflation to rise above 6% in the third quarter. Consumer price inflation is forecast to average 5,8% in 2013 and 5,5% in 2014. Interest rates are expected to remain stable at current levels before rising in the third quarter of 2014 to keep inflation under control.
- Many consumers continued to experience some financial pressure during 2013, with growth in employment, real household disposable income and consumption expenditure remaining low, while the savings ratio showed no improvement. The number of credit-active consumers with impaired credit records continued to rise up to mid-year, affecting the accessibility of credit, while consumer confidence dropped to its lowest level in ten years in the third quarter of the year.
- Nominal year-on-year house price growth in the middle segment of the market slowed down in the third quarter of 2013 from the second quarter, with lower price growth evident in all middle-segment categories. Although barely positive, lower nominal year-on-year price growth occurred in the category for affordable housing in the third quarter compared with the preceding quarter, whereas price growth in the luxury segment improved further in the third quarter.
- Housing affordability, as measured by the ratios of house prices and mortgage repayments to household disposable income, was relatively stable in the first half of 2013, remaining still favourable compared with a few years ago. Despite the low mortgage interest rate, many households' ability to take advantage of the favourable trends in housing affordability continued to be affected by economic and household finance-related factors.
- In view of current trends in and prospects for the economy, household finances and property market-related factors in general, as well as recent developments with regard to house price growth, single-digit nominal price growth is forecast for 2013 and 2014. Based on the outlook for nominal price growth and headline consumer price inflation in the rest of the year and in 2014, moderate real house price inflation is projected over this period.

## Economic overview

### The global economy

The International Monetary Fund (IMF) reported in the October 2013 edition of its *World Economic Outlook* that global economic growth remained relatively low at a real 2,5% in the first half of 2013, about the same as in the second half of 2012. Although the emerging market and developing economies continue to drive global growth, economic expansion in these economies have slowed down somewhat recently, while growth in the advanced economies gained some momentum.

Despite fiscal tightening in the US earlier in the year, global growth is supported by the US economy, with levels of activity already gaining speed on the back of a recovery in the property market, an easing in bank lending conditions and rising household wealth. In the euro area, indicators of business confidence are pointing to a stabilisation and a gradual recovery in levels of activity in some major economies in the region.

Economic activity in emerging markets and developing economies is driven by exports and domestic consumption expenditure on the back of growth in advanced economies and relatively low levels of unemployment compared with advanced economies. In China, policymakers have refrained from further stimulating the economy, which led to a slowdown in the pace of growth, while India is struggling with supply-side constraints.

Sub-Saharan Africa continued to experience relatively strong economic growth in the first half of 2013, although somewhat lower than in 2012, which was the result of subdued foreign demand, some reversal of capital flows and softer commodity prices.

Inflationary pressures continue to remain subdued in advanced economies, with consumer price inflation at about 1,5% in the first half of 2013. Inflation in emerging markets and developing countries was around the 6% level in the first half of the year.

Monetary policy remained accommodative globally in view of the abovementioned conditions and prospects regarding economic growth and inflation.

### The South African economy

Domestic economic growth of around 2% was recorded

in the first half of 2013 compared with the corresponding period last year, as measured by growth in the country's real gross domestic product (GDP).

The primary sector contracted by a real seasonally adjusted annual rate of 5% in the second quarter of the year, which was the result of dry weather conditions hampering field crop production, whereas the real value added by the mining sector was adversely affected by factors such as work stoppages, labour action and escalating cost pressures.

The secondary sector recorded annualised growth of 9,3% in the second quarter, largely as a result of a strong rebound in real growth in manufacturing of 11,5% after a contraction of 7,9% in the first quarter. The manufacturing sector benefited from a relatively stable global economy and improved competitiveness as a result of a weaker rand exchange rate.

The services sector recorded stable real annualised growth of 2,3% in the second quarter from 2,4% in the preceding quarter, supported by growth of 3,5% in the real value added by the finance, insurance, real estate and business services sectors.

Various sectors of the economy experienced severe strike action during the course of 2013, with a total of 1,8 million man-days lost in the first six months of the year compared with a loss of 750 000 man-days in the same period last year. Some of these labour strikes continued into the fourth quarter of the year, which adversely affect production, exports, fixed investment, employment, household income, consumption expenditure and consumer and business confidence. These developments are expected to be reflected in the country's economic growth for the second half of the year.

After a relatively stable headline consumer price inflation rate of 5,7% year-on-year (y/y) in the first half of 2013, inflationary pressures from food prices, transport costs, property running costs, the exchange rate and wage hikes pushed inflation to above the 6% level in the third quarter. Underlying core inflation, i.e. headline inflation excluding the more volatile components of food, non-alcoholic beverages, petrol and energy, was on a gradual upward trend in the first three quarters of the year compared with the same period last year.

Domestic interest rates were kept stable during the course of 2013 on the back of economic developments

and trends in and expectations with regard to headline consumer price inflation, which is forecast to average just below the 6% level for the full year. The South African Reserve Bank expects core inflation to average 5,2% in 2013 from 4,6% in 2012. Banks' prime lending and variable mortgage interest rates remained unchanged at 8,5% per annum up to October this year – their lowest level in 40 years, supporting the repayment of debt and the affordability of credit.

### Household sector overview

Many South African consumers continued to experience financial pressure during the course of 2013, with growth in real income and consumption expenditure remaining low, the savings ratio not improving, the number of credit-active consumers with impaired credit records rising further up to mid-year and consumer confidence at a 10-year low in the third quarter of the year.

Growth in real household disposable income (after-tax and inflation-adjusted income) was recorded at an annualised rate of 2,4% in the second quarter of 2013, slightly up from 2,2% in the first quarter. This still relatively low real income growth was the result of the combined effect of continued tight labour market conditions and inflationary pressures in the first half of the year. Labour costs increased at a faster pace than inflation with the average wage settlement rate at 7,9% in the first half of 2013 compared with 7,7% in the same period a year ago, as reported by Andrew Levy Employment. Consumer price inflation averaged 5,7% y/y in the first six months of the year. Growth in labour productivity was low at only 1,2% y/y in 2012 and dropped further to 0,8% y/y in the first quarter of 2013, contributing to nominal unit labour costs rising by 6,7% in the first quarter from 6,3% in 2012.

Growth in real household consumption expenditure remained low at an annualised rate of 2,5% in the second quarter of 2013 (2,3% in the first quarter), mainly due to low real income growth, inflationary pressures, which negatively affected consumers' spending power, and an extremely low level of consumer confidence. The close correlation between growth in real household disposable income and consumption continued up to mid-2013 and is related to the severe lack of household savings (see relevant graphs at the back of the publication) and many consumers' financial inability to take up credit for the purpose of consumption expenditure.

The ratio of gross household saving to GDP remained stable at 1,7% in the first half of the 2013, with growth in household disposable income during this period largely matched by growth in consumption expenditure. The ratio of net household saving to disposable income remained at a zero-level up to the second quarter of the year. Net household saving is based on the level of gross saving, adjusted for depreciation write-offs on the value of physical assets held by households, such as residential buildings and vehicles.

The value of outstanding household credit balances, comprising instalment sales credit, leasing finance, mortgage loans, credit card debt, overdrafts and general loans and advances (mainly personal and micro loans), recorded growth of 8,2% y/y up to August this year. Growth in the value of outstanding household secured credit balances (instalment sales credit, leasing finance and mortgage loans) came to 5,1% y/y in the first eight months of the year. Year-on-year growth in the value of outstanding household unsecured credit balances (credit card debt, overdrafts and general loans and advances) was still relatively high at 20% at the end of August, but is on a declining trend after peaking at 31,6% in November last year. Factors such as the National Credit Act (NCA), banks' risk appetite and lending criteria and consumers' credit-risk profiles affect the availability and accessibility of credit.

The household debt ratio edged up slightly to 75,8% in the second quarter of 2013 from 75,4% in the first quarter. The debt ratio is calculated as the total amount of outstanding household debt expressed as a percentage of the total annual disposable income of households, i.e. after deductions for tax, social contributions and transfers. Based on the debt ratio and a stable prime lending rate, the cost of servicing household debt as a percentage of disposable income was 7,7% in both the first and second quarters of the year. The household debt-servicing ratio is calculated as the interest component of debt repayments expressed as a percentage of disposable income.

Consumers' credit-risk profiles continued to deteriorate up to the second quarter of 2013, based on statistics published by the National Credit Regulator. A total of 9,69 million credit-active consumers, or 48% of a total of 20,21 million, had impaired credit records in the second quarter of the year, up from 9,53 million, or 47,5%, in the first quarter. The number of consumers in good standing dropped further from 10,55 million (52,5%) in the first quarter to 10,52 million (52%) in the

second quarter. A total of 71,2 million consumer credit accounts were active in the second quarter of the year, with 52,33 million (73,5%) in good standing and 18,87 million (26,5%) impaired. Consumers' credit-risk profiles impact their access to credit and affect household consumption expenditure against the background of the distressed savings situation.

A total of 8,437 million people were employed in the formal non-agricultural sectors of the economy in the second quarter of 2013 (8,465 million employed in the preceding quarter), based on the latest *Quarterly Employment Statistics* report published by Statistics South Africa. In view of continued labour market instability and relatively low economic growth, formal sector employment contracted by 0,3% quarter-on-quarter (q/q) in the second quarter after marginal growth of only 0,1% q/q in the first quarter. The unemployment rate increased somewhat further to 25,6% (4,723 million people) in the second quarter of the year from 25,3% in the first quarter.

The level of consumer confidence, as measured by the Bureau for Economic Research's (BER), dropped to -8 index points in the third quarter of 2013 – its lowest level in 10 years. Consumers appear to be particularly pessimistic about the domestic economy, with the economic outlook sub-index of the overall confidence index down to a 5-year low of -14 index points, which indicates that the majority of consumers expect local economic conditions to worsen over the next 12 months. This came against the background of severe strike actions in various sectors of the economy, which were to the detriment of economic activity, employment and household income and consumption.

The deterioration in consumer confidence in the third quarter of the year was more pronounced in the category of low-income consumers, as high unemployment, soaring transport costs, accelerating food price inflation and lost income during times of industrial action normally have a significant adverse effect on the financial position of these consumers.

Consumer confidence is measured by expectations regarding the outlook for the economy, household finances and durable consumption expenditure, with the index dropping sharply from a level of 14,5 in 2010 to 7,3 in 2011, -0,5 in 2012 and -4,7 in the first three quarters of 2013.

## Property market overview

According to Absa's calculations, nominal year-on-year house price growth in the middle segment of the market slowed down in the third quarter of 2013 after being on an upward trend in the first two quarters of the year (see section on house prices below).

Levels of residential building activity showed a steady improvement on a cumulative basis in the first eight months of 2013 compared with a year ago, although a downward trend occurred from May this year. The volume of building plans for new housing approved by local government institutions increased by 7,1% y/y to 33 943 units in the period January to August, mainly driven by the segment for flats and townhouses, which posted growth of 15,6% y/y over this period. The construction phase of new housing saw a small contraction of 0,6% y/y to a total of 27 518 units in the eight months up to August from 27 694 units in the same period last year. Although the category of flats and townhouses showed growth of 15,2% y/y in the eight-month period, it was the segment of houses less than 80m<sup>2</sup> that contributed to the contraction in new housing built. These residential building statistics refer to private-sector financed housing, excluding government-subsidised low-cost housing.

In the third quarter of 2013 building confidence improved somewhat further to its highest level since the third quarter of 2008. This is based on the BER's building confidence index, which measures prevailing business conditions in the building industry sub-sectors of architects, quantity surveyors, main building contractors, sub-contractors, manufacturers of building materials and retailers of building materials and hardware.

The performance of the mortgage market remained subdued up to the third quarter of 2013 against the background of economic trends, the state of household finances, consumer credit-risk profiles, banks' risk appetite and lending criteria, consumer confidence and residential property market conditions in general. Growth in the value of outstanding household mortgage balances was relatively low at less than 3% y/y in the first three quarters of the year, to reach a level of almost R810 billion. Outstanding mortgage balances are the net result of property transactions, mortgage finance paid out, capital repayments on mortgage loans as well as loans fully paid-up.

The household mortgage debt-to-income ratio

(outstanding household mortgage debt as a percentage of annual disposable income) was relatively stable at about 39,5% in the second quarter of 2013 from the first quarter. This was the net result of quarter-on-quarter growth of 0,8% in household mortgage debt and growth of 1% in nominal disposable income.

The cost of servicing household mortgage debt (the interest component of mortgage debt repayments) as a percentage of disposable income was unchanged at 3,4% in the second quarter of 2013 from the preceding two quarters. This was the net result of trends in household mortgage debt and nominal disposable income, which determine the mortgage debt ratio and the mortgage interest rate, which remained unchanged up to the third quarter of the year.

On the back of the variable mortgage interest rate currently at a level of 8,5% per annum, monthly repayments on mortgage loans are in general 35,9% lower compared to early December 2008, when the mortgage rate was at a level of 15,5% per annum. The continued low mortgage interest rate is beneficial to the affordability of mortgage finance, supporting the demand for housing and consumers' ability to take up credit to buy property.

The impact of changes in the mortgage interest rate is reflected in the relevant tables at the back of the report, presenting monthly mortgage repayments for various loan amounts at various interest rates, as well as mortgage loan amounts based on various fixed monthly repayments at various interest rates. These calculations are based on a 20-year repayment term.

According to Tenant Profile Network (TPN) Credit Bureau's research on the residential rental market, a total of 71% of residential tenants paid rent on time, 4% paid in the grace period, 8% paid late, 11% made a partial payment and 6% did not pay rent at all in the second quarter of 2013. TPN data for the second quarter also indicates that 23% of tenants rent for below R3 000 per month, 62% for between R3 000 and R7 000 per month, 11% for between R7 000 and R12 000, and 4% for more than R12 000 per month.

Based on data published by Statistics South Africa, residential rental inflation remained relatively flat in the first nine months of 2013, averaging 4,2% y/y in the case of houses and 5,4% y/y in the case of both townhouses and flats.

## House prices

Nominal year-on-year house price growth in the middle segment of the market (homes of 80m<sup>2</sup> – 400m<sup>2</sup> and priced up to R3,8 million in 2013) slowed down in the third quarter of the year from the second quarter, with lower price growth evident in all middle-segment categories. In real terms, i.e. after adjustment for the effect of inflation, year-on-year house price growth in the middle segment was lower in the third quarter compared with the second quarter, driven by a combination of lower nominal price growth and higher inflation.

Although barely positive, lower nominal year-on-year price growth occurred in the category for affordable housing in the third quarter of the year from the second quarter, whereas price growth in the luxury segment improved further in the third quarter.

The nominal price of a property refers to the price at which it was valued or transacted on the open market, i.e. the market price, selling or purchase price. The nominal price will be reflected in a valuation, an offer to purchase, an application for mortgage finance and in the transfer documentation at registration.

The real price of a property is the nominal price adjusted for the effect of inflation, and is calculated to determine if the value of a property has increased at a rate of above or below the inflation rate. In addition to the nominal price, real price trends and growth are important from a property investment point of view.

House price trends continued to be a reflection of property market conditions and related factors, which are affected by a combination of macroeconomic developments, the state of household finances and the level of consumer confidence.

The residential property price trends presented in this report are based on the value of properties for which Absa received and approved applications for mortgage finance. As a result, price movements may be evidence of changed market strategies and lending criteria implemented by the bank, impacting differently on the various segments of housing analysed. Real price calculations are based on nominal prices deflated by the headline consumer price index. All price data series are seasonally adjusted and smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers, which may have the

effect of recent price data and growth rates differing from previously published figures.

### **Affordable housing**

Year-on-year growth in the average nominal price growth of affordable housing (homes of 40m<sup>2</sup> – 79m<sup>2</sup> and priced up to R515 000 in 2013) continued its gradual downward trend, coming in at 0,9% in the third quarter of 2013 after peaking at 7% in the third quarter last year. In real terms prices in the affordable segment dropped by 5,2% y/y in the third quarter this year.

The average price of a home in the affordable segment of the market was R342 000 in the third quarter of 2013.

### **Middle-segment housing**

The middle segment of the housing market (homes of 80m<sup>2</sup> – 400m<sup>2</sup> and priced at R3,8 million or less in 2013) saw nominal price growth of 9,3% y/y in the third quarter of 2013, down from 11,4% in the second quarter. This brought the average price of a middle-segment home to about R1 172 100 in the third quarter.

The abovementioned lower third-quarter price growth came on the back of the base effect of accelerating price growth a year ago, while there has also been evidence of price growth slowing down on a month-on-month basis since the penultimate quarter of last year.

The following price changes occurred in the three middle-segment categories in the second and third quarters of 2013:

Small houses (80m<sup>2</sup> - 140m<sup>2</sup>, up to R3,8 million):

- Second quarter: nominal 9,2% y/y and real 3,2% y/y
- Third quarter: nominal 4,3% y/y and real -2,1% y/y

Medium-sized houses (141m<sup>2</sup> - 220m<sup>2</sup>, up to R3,8 million):

- Second quarter: nominal 7% y/y and real 1,2% y/y
- Third quarter: nominal 5,4% y/y and real -1% y/y

Large houses (221m<sup>2</sup> - 400m<sup>2</sup>, up to R3,8 million):

- Second quarter: nominal 10,5% y/y and real 4,5% y/y
- Third quarter: nominal 8,4% y/y and real 1,8% y/y

### **Luxury housing**

Nominal price inflation in the segment of luxury housing (homes priced at between R3,8 million and R13,8 million in 2013) was recorded at 7,3% y/y in the third

quarter of 2013 from 4,6% y/y in the second quarter. This brought the average price of a luxury home to a level of R5 132 300 in the third quarter. As the sample size of this category of housing is relatively small, a number of transactions of a higher value compared with previous quarters and included in the sample could have contributed to the strong price growth in the third quarter. Marginal real price inflation of 0,7% y/y was evident in the third quarter after real price deflation was recorded in the preceding nine quarters.

### **Regional house prices**

House prices at a regional level, i.e. in the various provinces, metropolitan areas and coastal regions, continued to show relatively strong growth in a number of areas in the third quarter of 2013 (see tables at the back of the report presenting house price trends at a geographical level).

House prices along the coast improved further in the third quarter of 2013, growing by a nominal 13% y/y, mainly as a result of base effects after being in a state of deflation from late 2011 up to mid-2012 and showing only marginal growth in the third quarter of last year.

General economic trends have an impact on the performance of the residential property market at geographical level, but these regional markets may react differently to these developments as a result of various area-specific factors, such as location, physical infrastructure and the level and extent of economic development and growth. These factors may affect property demand and supply conditions, market activity, buying patterns, transaction volumes and price levels and growth.

### **New and existing housing**

The average nominal price of a new house for which Absa received and approved applications for mortgage finance increased by 14% y/y to about R1 811 300 in the third quarter of 2013, after rising by 10,6% y/y in the preceding quarter. In real terms, the average price of a new home rose by 7% y/y in the third quarter from 4,5% y/y in the second quarter. The acceleration in the average price of a new house is related to the jump in building costs over the past three quarters compared with a year ago (see section below on building costs).

The average price of an existing house increased by a nominal 8,4% y/y to R1 138 900 in the third quarter, after

rising by 11,1% y/y in the second quarter. Real price growth of 1,8% y/y was recorded in the third quarter with regard to existing homes, down from 5% y/y in the second quarter.

As a result of these trends in the average price of new and existing homes, it was as much as R672 400, or 37,1%, cheaper to have bought an existing house than to have a new one built in the third quarter of 2013.

### **Building costs**

The cost of having a new house built accelerated further in the third quarter of 2013, increasing by a nominal 11,9% y/y after rising by 7,6% y/y in the second quarter. The increase in building costs was affected by inflationary pressures, with the headline consumer price inflation rate rising to an average of 6,5% y/y in the third quarter from 5,7% y/y in the previous quarter. The relatively sharp year-on-year increase in building costs could also have been influenced by the inclusion of an increased number of higher-valued new homes in the sample than in the recent past.

Factors impacting building costs, and eventually the price of new housing, include building material costs; equipment costs; transport costs; labour costs; developer and contractor profit margins; and the cost of developing land for residential purposes, which is impacted by aspects such as finance costs, land values, the cost of rezoning, the cost of preparing land for construction and holding costs in general.

### **Land values**

The value of land for new housing in the middle and luxury segments of the market for which Absa received applications and approved mortgage finance, increased by a nominal 9,4% y/y to an average of about R567 100 in the second quarter of 2013, after rising by 7,9% y/y in the first quarter. In real terms residential land values were up by 3,5% y/y in the second quarter of the year, after rising by a real 2,5% y/y in the first quarter.

The average price of land for new middle-segment and luxury housing, which amounted to almost 28% of the total value of a new residential property in this category over the past 3½ years, will continue to reflect the all-important factor of location, as well as the availability of suitable land for development, the availability of municipal services such as electricity, water, sewerage

and refuse removal, and the availability and condition of transport infrastructure.

### **Affordability of housing**

Housing affordability, as measured by the ratios of house prices and mortgage repayments to household disposable income (see graph on the affordability of housing), was relatively stable in the second quarter of 2013 from the first quarter, although remaining still favourable compared with a few years ago. This was the net result of trends in house price and disposable income growth, as well as a stable mortgage interest rate, currently at a 40-year low of 8,5% per annum.

Despite the low mortgage interest rate, many households' ability to take advantage of the favourable trends in housing affordability continued to be affected by factors such as employment, income, savings, living costs, debt levels, as well as credit-risk profiles (as reflected by the state of consumer credit records), the NCA and banks' lending criteria in the case of mortgage loan applications for buying property.

A downward/upward trend in the abovementioned two housing affordability ratios implies that house prices and mortgage repayments are rising at a slower/faster pace than household disposable income. The result is that housing is in effect becoming more/less affordable.

### **Outlook**

#### **The global economy**

Based on the latest forecasts by the IMF, global real economic growth of 2,9% is expected for 2013, rising to 3,6% in 2014.

Relatively low growth of 1,2% is expected in the advanced economies this year, with growth forecast to improve to 2% in 2014. US economic growth is projected at 1,6% in 2013, accelerating to 2,6% in 2014, which will be supportive of overall global growth. However, the euro area economy is still forecast to contract in 2013, by a real 0,4%, with growth projected to be still relatively low at only 1% in 2014.

The IMF expects developing world economic growth of 4,5% in 2013, rising to 5,1% in 2014. Growth in the Chinese economy is forecast at 7,6% in 2013 and 7,3% in 2014, which is in line with the national target of

keeping the economy on a balanced and sustainable growth path.

Economic growth in sub-Saharan Africa is projected by the IMF to be around 5% in 2013, virtually unchanged from 4,9% in 2012, while rising to 6% in 2014 in view of stronger global growth. The main risk to growth in the region is the performance of the global economy, including somewhat lower growth expected in China, which could impact exports on the back of lower commodity prices.

Inflation in the advanced economies is forecast at 1,4% for the full year of 2013 and 1,8% in 2014, with inflation in the developing world projected at 6,2% in 2013 and 5,7% in 2014. Inflation in sub-Saharan African countries is expected to slow down to below 7% in 2013 and 2014 from 9% in 2012, supported by an expected moderation in global food prices and the impact of monetary policy measures.

The relatively low interest rates worldwide are expected to continue for the rest of 2013 and into 2014 on the back of levels of economic activity and the outlook for inflation.

### **The South African economy**

Domestic real economic growth is estimated by Absa to be around the 2% level in 2013, (2,5% in 2012), with growth to be driven by global economic trends and the resultant demand for exports, as well as domestic demand and other developments on the local economic front. However, disruptions to production and economic activity in general as a result of labour strikes in various sectors of the economy and continued relatively low levels of demand, may cause economic growth to be subdued in the second half of the year, with the Moody's rating agency recently highlighting the risk of downgrading South Africa's credit rating. These developments will keep employment growth under pressure, impacting the household sector. Real economic growth of 2,8% is forecast for 2014, which will be the result of a combination of global and domestic economic trends and developments.

The headline consumer price inflation rate is forecast to average above the 6% level in the third quarter of 2013, driven by, *inter alia*, high transport costs, a weak exchange rate and the impact of wage hikes. The Absa projection is for inflation to average 5,8% in 2013 and to be slightly lower at 5,5% in 2014. The South African Reserve Bank is expecting the headline consumer price

inflation rate to average 5,9% in 2013 and 5,8% in 2014, with core inflation forecast at 5,2% in 2013 and 5,4% in 2014.

In view of current trends in and prospects for the global and local economy, as well as the outlook for consumer price inflation, interest rates are still forecast to remain unchanged at current levels throughout 2013 before rising in the third quarter of 2014 to keep inflation in check. The performance of the economy and the factors driving inflation will be closely monitored by the central bank in decisions regarding its monetary policy stance.

### **The household sector**

Aspects such as economic growth, employment, inflation and interest rates will remain important driving factors of trends in household finances, with the following prospects for the major household sector-related variables:

- Employment growth of less than 1% is forecast for 2013 and 2014.
- Growth in real household disposable income is projected at below 3% this year and next year, affected by inflation and low employment growth.
- Growth in real household consumption is expected to remain closely correlated with disposable income growth on the back of low savings and inflationary pressures. Household consumption expenditure is forecast at around 61% of GDP in 2013 and 2014, implying that the household sector will remain an important part of the economy and driver of economic growth.
- With lending rates forecast to remain relatively low during next year and levels of saving not expected to show a substantial improvement, the household sector will continue to largely rely on credit for funding consumption expenditure, especially with regard to durable goods such as personal transport, equipment, furniture, household appliances and electronic equipment, with the result that the debt-to-income ratio is expected to rise above 76% towards year-end and to touch on 77% by late 2014.
- Year-on-year growth in outstanding household credit balances is forecast at between 7% and 8% by the end of this year and next year. The cost of servicing household credit as a percentage of disposable income, currently at 7,7%, is expected to still remain under control despite an uptick in the prime lending rate and the debt-to-income ratio during 2014.
- The credit-risk profiles of consumers are not expected to show a significant improvement over the



short term from current levels, with the effect of hampering the accessibility of credit and household consumption expenditure.

### **The property market**

The performance of and prospects for the residential property market will continue to be closely related to economic growth, employment and household income growth, property running costs and living costs in general, interest rates, consumers' credit-risk profiles, consumer confidence and banks' risk appetite and lending criteria. These factors will impact the affordability of housing and mortgage finance and will be reflected in property demand and supply conditions, price trends, market activity, buying trends, transaction volumes and the demand for mortgage finance.

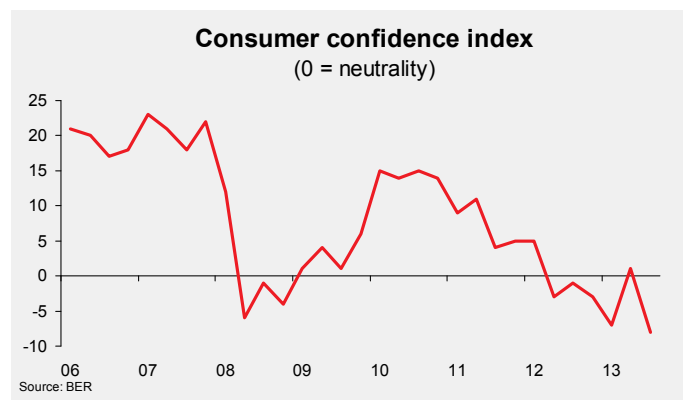
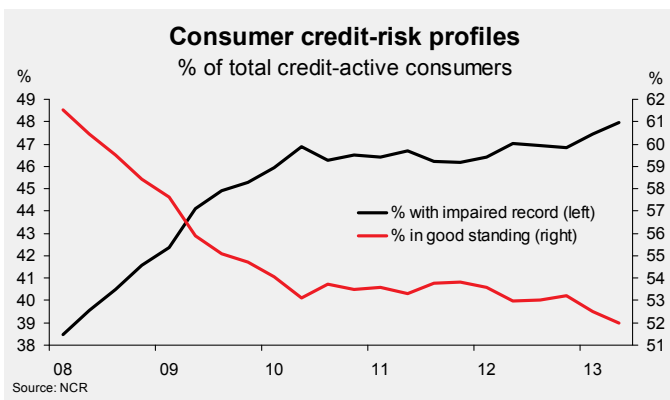
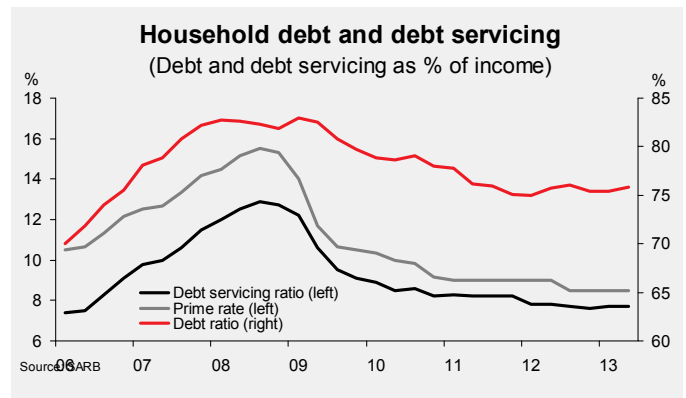
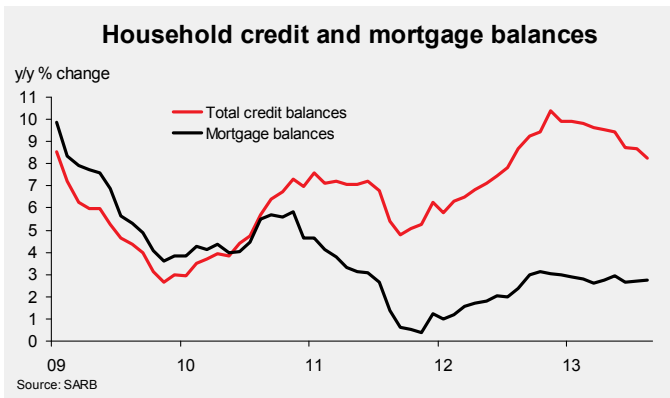
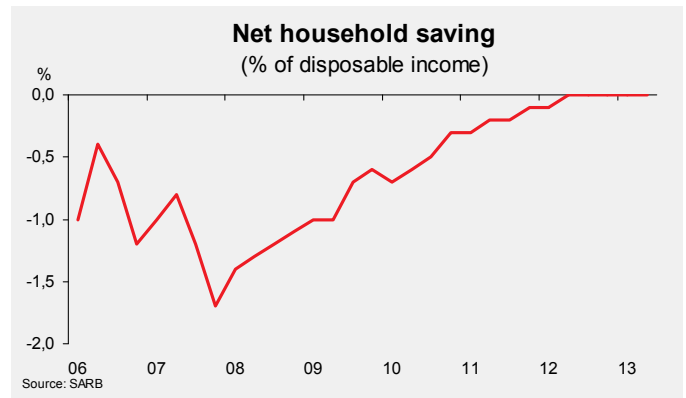
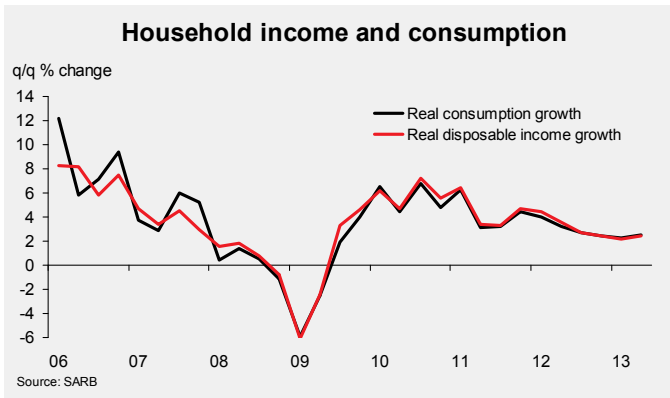
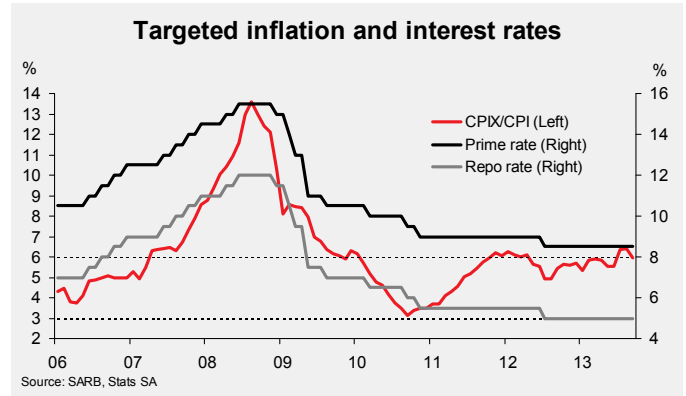
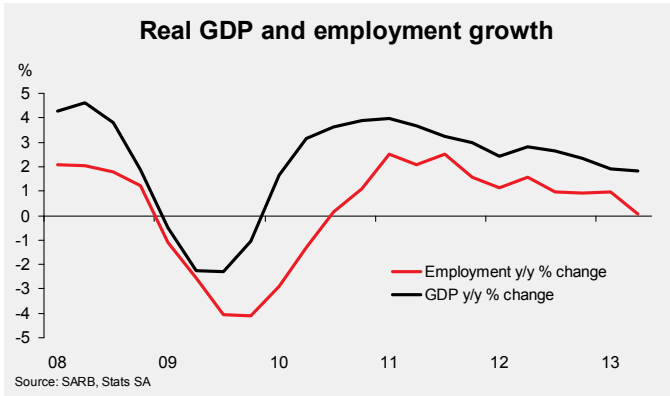
In view of current trends in and prospects for the abovementioned factors, as well as recent developments with regard to house price growth, single-digit nominal price growth is forecast for 2013 and 2014.

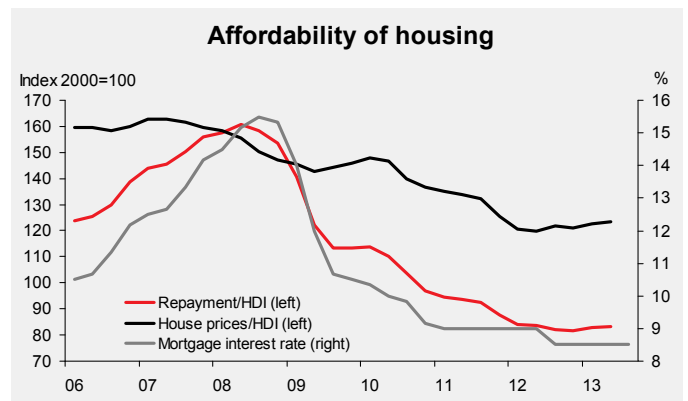
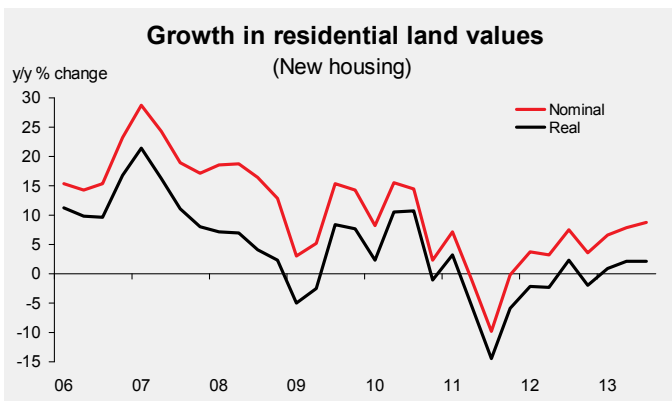
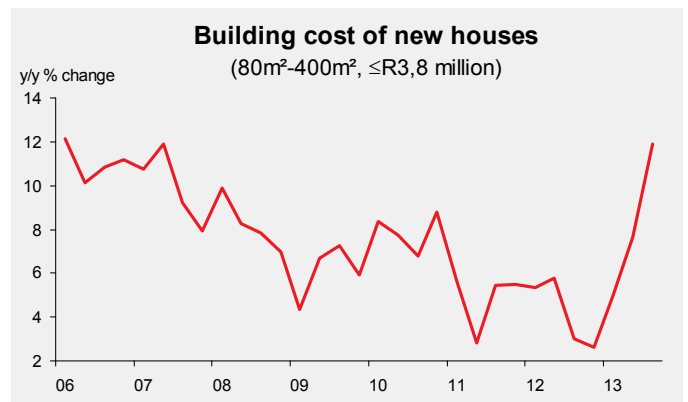
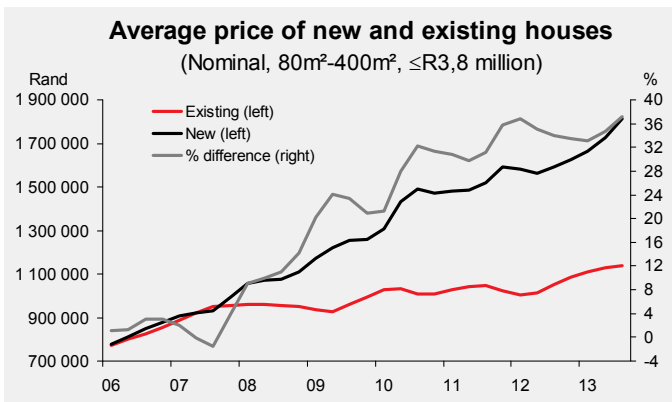
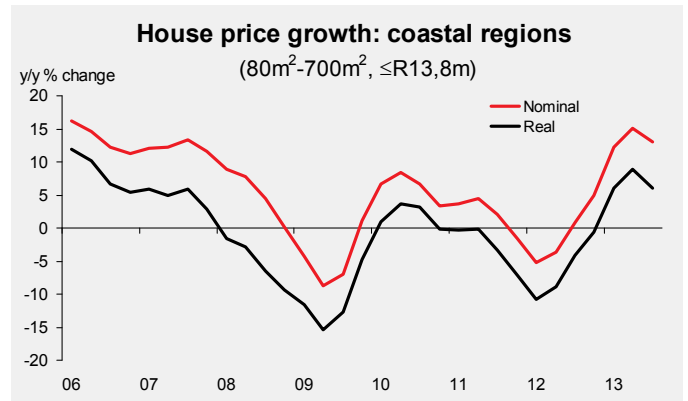
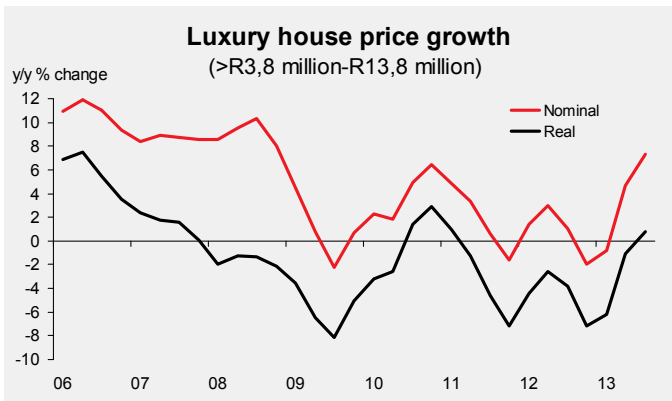
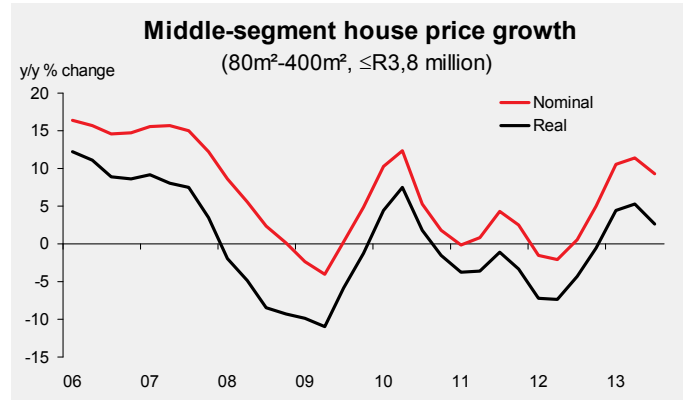
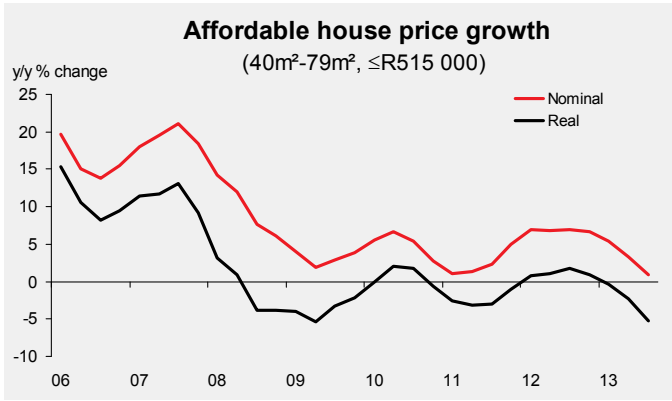
Based on the outlook for nominal price growth and headline consumer price inflation in the rest of the year and in 2014, moderate real house price inflation is projected over this period.

Against the background of current conditions in and the outlook for the economy, household finances and consumer confidence, growth in outstanding household mortgage balances, which was below 3% y/y in the first eight months of 2013, is forecast to remain well in single-digit territory up to year-end and in 2014.

Residential building activity has picked up gradually during the course of 2013 and is expected to continue to steadily recover along with improved levels of building confidence registered in the first three quarters of the year. In view of a growing demand for housing, changing lifestyles and pressures on the affordability of housing, the focus of the past number of years on the supply of especially smaller-sized houses and the construction of higher-density flats and townhouses, is expected to continue.

# Graphs





## Statistics

### Average nominal house prices

	2009 Rand	2010 Rand	2011 Rand	2012 Rand	2012		2013					
					Q3	Q4	Q1	Q2	Q3			
					Rand	Rand	Rand	Rand	Rand	q/q % Δ	y/y % Δ	
<b>National</b>												
<b>Middle segment (80m<sup>2</sup>-400m<sup>2</sup>, ≤R3,8m)</b>	964 501	1 035 273	1 054 348	1 059 633	1 072 625	1 103 477	1 132 925	1 154 979	1 172 113	1,5	9,3	
Small (80m <sup>2</sup> -140m <sup>2</sup> , ≤R3,8m)	666 870	774 669	738 212	703 457	720 585	761 956	750 223	737 209	751 430	1,9	4,3	
Medium (141m <sup>2</sup> -220m <sup>2</sup> , ≤R3,8m)	923 677	969 914	985 776	1 015 936	1 028 498	1 059 988	1 070 454	1 069 261	1 083 783	1,4	5,4	
Large (221m <sup>2</sup> -400m <sup>2</sup> , ≤R3,8m)	1 387 485	1 446 852	1 483 217	1 515 409	1 527 876	1 558 439	1 602 162	1 647 189	1 655 691	0,5	8,4	
New (80m <sup>2</sup> -400m <sup>2</sup> , ≤R3,8m)	1 226 574	1 425 964	1 520 011	1 590 856	1 589 497	1 626 570	1 662 532	1 728 808	1 811 308	4,8	14,0	
Existing (80m <sup>2</sup> -400m <sup>2</sup> , ≤R3,8m)	954 634	1 020 987	1 034 564	1 037 594	1 050 286	1 083 499	1 111 388	1 127 479	1 138 934	1,0	8,4	
<b>Affordable (40m<sup>2</sup>-79m<sup>2</sup>, ≤R515 000)</b>	292 783	307 597	315 780	336 622	338 935	344 793	347 418	344 491	342 036	-0,7	0,9	
<b>Luxury (R3,8m-R13,8m)</b>	4 512 644	4 680 416	4 761 701	4 798 208	4 783 315	4 693 119	4 846 825	5 098 284	5 132 340	0,7	7,3	
<b>Provinces</b>												
<b>Eastern Cape</b>	831 591	909 956	891 374	915 626	933 553	939 646	941 699	936 317	965 381	3,1	3,4	
<b>Free State</b>	750 842	838 829	888 607	870 274	881 866	967 554	936 237	943 146	924 434	-2,0	4,8	
<b>Gauteng</b>	1 021 934	1 082 473	1 117 532	1 101 398	1 106 950	1 130 193	1 148 708	1 193 515	1 219 138	2,1	10,1	
<b>KwaZulu-Natal</b>	852 071	923 731	960 895	932 084	943 301	1 028 931	1 081 735	1 070 332	1 063 196	-0,7	12,7	
<b>Limpopo</b>	831 681	889 465	881 822	930 108	953 972	1 005 630	1 022 584	1 013 775	999 284	-1,4	4,7	
<b>Mpumalanga</b>	808 307	855 069	902 679	928 712	933 964	1 001 723	1 029 801	1 022 176	1 015 916	-0,6	8,8	
<b>North West</b>	785 464	836 192	848 762	872 013	858 380	839 751	869 202	918 972	947 807	3,1	10,4	
<b>Northern Cape</b>	693 629	781 394	771 712	862 334	862 334	897 834	885 720	986 283	1 067 234	1 019 759	-4,4	13,6
<b>Western Cape</b>	1 098 508	1 173 048	1 157 455	1 191 309	1 201 214	1 211 970	1 252 431	1 294 196	1 305 152	0,8	8,7	
<b>Metropolitan regions</b>												
<b>PE/Uitenhage (Eastern Cape)</b>	816 962	899 912	861 962	869 874	890 083	885 809	886 403	907 725	935 424	3,1	5,1	
<b>East London (Eastern Cape)</b>	1 019 460	1 049 230	989 913	1 064 878	1 065 687	1 038 974	1 041 290	1 110 400	1 215 702	9,5	14,1	
<b>Bloemfontein (Free State)</b>	940 876	1 091 027	1 100 740	1 105 163	1 122 675	1 207 202	1 202 482	1 216 779	1 139 617	-6,3	1,5	
<b>Greater Johannesburg (Gauteng)</b>	1 074 830	1 107 238	1 162 714	1 132 168	1 136 298	1 151 681	1 162 408	1 209 532	1 226 933	1,4	8,0	
Johannesburg Central & South	886 469	906 199	908 572	866 287	893 609	879 992	850 672	865 709	873 663	0,9	-2,2	
Johannesburg North & West	1 297 090	1 392 742	1 409 537	1 423 098	1 435 992	1 448 922	1 461 713	1 472 110	1 479 902	0,5	3,1	
East Rand	932 260	953 495	1 022 821	1 017 229	1 014 212	1 024 174	1 064 127	1 115 432	1 154 814	3,5	13,9	
<b>Pretoria (Gauteng)</b>	1 055 062	1 165 482	1 183 104	1 180 546	1 200 499	1 224 665	1 241 377	1 296 044	1 328 691	2,5	10,7	
<b>Durban/Pinetown (KwaZulu-Natal)</b>	921 108	999 295	1 009 808	990 958	972 363	1 083 443	1 112 170	1 050 691	1 030 742	-1,9	6,0	
<b>Cape Town (Western Cape)</b>	1 097 674	1 194 805	1 181 951	1 236 102	1 236 873	1 243 156	1 290 481	1 350 970	1 355 118	0,3	9,6	
<b>Coastal regions</b>												
<b>South Africa</b>	1 136 151	1 206 827	1 232 292	1 221 691	1 234 630	1 262 729	1 329 085	1 387 216	1 394 762	0,5	13,0	
<b>Western Cape</b>	1 187 682	1 274 432	1 319 847	1 315 223	1 328 194	1 337 738	1 393 412	1 469 052	1 477 988	0,6	11,3	
West Coast	1 141 779	1 240 148	1 339 645	1 231 354	1 208 647	1 219 870	1 257 092	1 315 027	1 390 474	5,7	15,0	
Cape Peninsula and False Bay	1 154 922	1 243 357	1 273 402	1 312 624	1 329 037	1 348 652	1 448 140	1 503 850	1 460 092	-2,9	9,9	
South Coast	1 307 295	1 375 628	1 433 267	1 358 089	1 372 601	1 372 660	1 377 055	1 437 500	1 537 710	7,0	11,7	
<b>Eastern Cape</b>	1 039 696	1 084 012	1 084 967	1 108 873	1 112 530	1 078 079	1 062 005	1 080 721	1 103 473	2,1	-0,8	
<b>KwaZulu-Natal</b>	1 097 631	1 195 270	1 278 427	1 191 586	1 233 197	1 278 607	1 464 755	1 520 015	1 503 905	-1,1	22,0	
South Coast	912 042	1 072 360	1 027 980	1 005 627	1 038 296	1 006 753	978 234	1 053 696	1 154 742	9,6	11,2	
North Coast	1 192 934	1 276 758	1 404 480	1 316 276	1 332 298	1 516 480	1 735 044	1 721 667	1 626 584	-5,5	22,1	

House prices are based on the total smoothed purchase price of houses (including all improvements) in respect of which loan applications were approved by Absa Bank. House prices for the provinces and metropolitan regions are smoothed for all houses between 80m<sup>2</sup> and 400m<sup>2</sup>, up to R3,8 million in 2013. House prices for the coastal regions are smoothed for all houses between 80m<sup>2</sup> and 700m<sup>2</sup>, up to R13,8 million in 2013.

### Key variables and projections

Annual averages

		2007	2008	2009	2010	2011	2012	2013	2014
<b>Gross domestic product</b>	Real % Δ	5,5	3,6	-1,5	3,1	3,5	2,5	2,0	2,8
<b>\$/R exchange rate</b>	Rand per US\$	7,05	8,25	8,44	7,32	7,25	8,21	9,62	10,36
<b>Headline consumer price inflation rate</b>	%	6,1	9,9	7,1	4,3	5,0	5,7	5,8	5,5
<b>Mortgage interest rate (end of period)</b>	%	14,5	15,0	10,5	9,0	9,0	8,5	8,5	9,0
<b>Household disposable income</b>	Real % Δ	5,2	2,1	-1,3	4,8	5,2	3,8	2,5	2,7
<b>Household final consumption expenditure</b>	Real % Δ	5,5	2,2	-1,6	4,4	4,8	3,5	2,4	2,6
<b>Net household saving to disposable income</b>	%	-1,2	-1,2	-0,8	-0,5	-0,2	0,0	0,1	0,2
<b>Household debt to disposable income</b>	%	80,0	82,3	81,0	78,2	76,3	75,6	75,9	76,7
<b>House prices (80m<sup>2</sup>-400m<sup>2</sup>, ≤R3,8m)</b>	Nominal % Δ	14,5	4,1	-0,4	7,3	1,8	0,5	9,3	6,2
<b>House prices (80m<sup>2</sup>-400m<sup>2</sup>, ≤R3,8m)</b>	Real % Δ	6,9	-6,2	-7,0	3,0	-3,0	-4,9	3,3	0,7

**Average nominal house prices by middle-segment category in the third quarter 2013**

	Small: 80m <sup>2</sup> – 140m <sup>2</sup>			Medium: 141m <sup>2</sup> – 220m <sup>2</sup>			Large: 221m <sup>2</sup> – 400m <sup>2</sup>		
	Price Rand	q/q % Δ	y/y % Δ	Price Rand	q/q % Δ	y/y % Δ	Price Rand	q/q % Δ	y/y % Δ
<b>National and provinces</b>									
<b>South Africa</b>	751 430	1,9	4,3	1 083 783	1,4	5,4	1 655 691	0,5	8,4
<b>Eastern Cape</b>	583 369	-3,5	-19,3	990 121	4,4	5,5	1 607 672	2,5	10,6
<b>Free State</b>	839 795	7,9	25,0	890 211	14,8	22,3	1 109 797	-9,4	-4,4
<b>Gauteng</b>	791 837	4,9	11,3	1 080 386	1,9	6,9	1 684 725	1,5	8,8
<b>KwaZulu-Natal</b>	653 648	3,9	11,0	1 051 112	2,3	12,7	1 530 461	-2,3	8,4
<b>Mpumalanga</b>	741 881	7,5	12,8	964 135	-3,8	-5,9	1 355 610	-1,5	12,4
<b>North West</b>	561 310	-3,0	-10,8	927 930	5,8	10,8	1 314 079	5,9	15,6
<b>Northern Cape</b>	569 085	-0,9	-13,1	1 015 493	-8,2	35,5	1 572 901	-4,1	27,2
<b>Limpopo</b>	574 858	-4,7	-2,8	915 527	-6,3	-9,8	1 247 108	-6,7	-17,6
<b>Western Cape</b>	869 780	4,8	6,1	1 248 871	-1,3	2,8	1 936 724	-0,4	9,6
<b>Metropolitan regions</b>									
<b>PE/Uitenhage (Eastern Cape)</b>	572 546	-2,7	-23,1	961 018	1,6	21,4	1 569 607	3,2	13,5
<b>East London (Eastern Cape)</b>	691 203	-1,9	-6,9	1 100 906	1,4	1,2	1 937 787	7,7	8,7
<b>Bloemfontein (Free State)</b>	967 872	5,4	23,3	1 133 728	3,9	12,4	1 435 586	-8,4	-2,4
<b>Greater Johannesburg (Gauteng)</b>	835 791	4,5	9,7	1 109 982	4,9	13,8	1 679 013	1,4	7,3
Johannesburg Central & South	512 455	-0,6	-11,5	863 896	3,5	11,5	1 295 536	-4,8	-13,9
Johannesburg North & West	819 890	-1,1	-5,8	1 333 225	4,6	9,8	1 908 962	2,7	9,5
East Rand	950 922	7,4	19,0	983 830	4,2	9,3	1 489 466	-0,9	9,3
<b>Pretoria (Gauteng)</b>	719 131	3,8	5,6	1 142 351	-0,6	-3,7	1 790 353	-1,4	7,6
<b>Durban/Pinetown (KwaZulu-Natal)</b>	686 912	5,0	7,5	1 018 959	-2,2	3,9	1 601 230	-4,8	3,6
<b>Cape Town (Western Cape)</b>	924 368	6,0	9,2	1 305 936	-3,0	2,1	2 039 490	1,1	9,7

House prices are based on the total smoothed purchase price of houses (including all improvements) between 80m<sup>2</sup> and 400m<sup>2</sup>, up to R3,8 million, in respect of which loan applications were approved by Absa Bank.

**Monthly mortgage repayment**  
(rand, calculated over a period of 20 years)

Mortgage amount	Repayment at a mortgage rate of													
	8,0%	8,5%	9,0%	9,5%	10,0%	10,5%	11,0%	11,5%	12,0%	12,5%	13,0%	13,5%	14,0%	14,5%
100 000	836	868	900	932	965	998	1 032	1 066	1 101	1 136	1 172	1 207	1 244	1 280
200 000	1 673	1 736	1 799	1 864	1 930	1 997	2 064	2 133	2 202	2 272	2 343	2 415	2 487	2 560
300 000	2 509	2 603	2 699	2 796	2 895	2 995	3 097	3 199	3 303	3 408	3 515	3 622	3 731	3 840
400 000	3 346	3 471	3 599	3 729	3 860	3 994	4 129	4 266	4 404	4 545	4 686	4 829	4 974	5 120
500 000	4 182	4 339	4 499	4 661	4 825	4 992	5 161	5 332	5 505	5 681	5 858	6 037	6 218	6 400
600 000	5 019	5 207	5 398	5 593	5 790	5 990	6 193	6 399	6 607	6 817	7 029	7 244	7 461	7 680
700 000	5 855	6 075	6 298	6 525	6 755	6 989	7 225	7 465	7 708	7 953	8 201	8 452	8 705	8 960
800 000	6 692	6 943	7 198	7 457	7 720	7 987	8 258	8 531	8 809	9 089	9 373	9 659	9 948	10 240
900 000	7 528	7 810	8 098	8 389	8 685	8 985	9 290	9 598	9 910	10 225	10 544	10 866	11 192	11 520
1 000 000	8 364	8 678	8 997	9 321	9 650	9 984	10 322	10 664	11 011	11 361	11 716	12 074	12 435	12 800
1 500 000	12 547	13 017	13 496	13 982	14 475	14 976	15 483	15 996	16 516	17 042	17 574	18 111	18 653	19 200
2 000 000	16 729	17 356	17 995	18 643	19 300	19 968	20 644	21 329	22 022	22 723	23 432	24 147	24 870	25 600
2 500 000	20 911	21 696	22 493	23 303	24 126	24 959	25 805	26 661	27 527	28 404	29 289	30 184	31 088	32 000

**Mortgage amount at fixed monthly repayment**  
(rand, calculated over a period of 20 years)

Mortgage repayment	Mortgage amount at a mortgage rate of													
	8,0%	8,5%	9,0%	9,5%	10,0%	10,5%	11,0%	11,5%	12,0%	12,5%	13,0%	13,5%	14,0%	14,5%
1 000	119 554	115 231	111 145	107 281	103 625	100 162	96 882	93 771	90 819	88 017	85 355	82 824	80 417	78 125
2 000	239 109	230 462	222 290	214 562	207 249	200 325	193 763	187 542	181 639	176 035	170 710	165 649	160 834	156 250
3 000	358 663	345 693	333 435	321 843	310 874	300 487	290 645	281 313	272 458	264 052	256 065	248 473	241 250	234 375
4 000	478 217	460 923	444 580	429 124	414 498	400 649	387 526	375 083	363 278	352 069	341 421	331 297	321 667	312 501
5 000	597 771	576 154	555 725	536 405	518 123	500 811	484 408	468 854	454 097	440 086	426 776	414 122	402 084	390 626
6 000	717 326	691 385	666 870	643 686	621 748	600 974	581 289	562 625	544 916	528 104	512 131	496 946	482 501	468 751
7 000	836 880	806 616	778 015	750 967	725 372	701 136	678 171	656 396	635 736	616 121	597 486	579 770	562 918	546 876
8 000	956 434	921 847	889 160	858 248	828 997	801 298	775 052	750 167	726 555	704 138	682 841	662 595	643 335	625 001
9 000	1 075 989	1 037 078	1 000 305	965 529	932 622	901 460	871 934	843 938	817 375	792 156	768 196	745 419	723 751	703 126
10 000	1 195 543	1 152 308	1 111 450	1 072 810	1 036 246	1 001 623	968 815	937 708	908 194	880 173	853 551	828 243	804 168	781 251
15 000	1 793 314	1 728 463	1 667 174	1 609 216	1 554 369	1 502 434	1 453 223	1 406 563	1 362 291	1 320 259	1 280 327	1 242 365	1 206 252	1 171 877
20 000	2 391 086	2 304 617	2 222 899	2 145 621	2 072 492	2 003 245	1 937 631	1 875 417	1 816 388	1 760 346	1 707 103	1 656 487	1 608 337	1 562 503
25 000	2 988 857	2 880 771	2 778 624	2 682 026	2 590 615	2 504 057	2 422 038	2 344 271	2 270 485	2 200 432	2 133 878	2 070 608	2 010 421	1 953 128